BUSINESS WEEK

A McGRAW-HILL PUBLICATION FIFTY CENTS APRIL 15, 1961

SPECIAL REPORT page 56

TROPICAL AFRICA

For U.S. Business: Wide Open Risky Tantalizing

CRUEL TURNS, RAW SPEED—VICTORY RIDES ON ROLLER BEARINGS!

This pit stop is for tires, gasoline, *but no repairs!* Winning the race against time and keen competition demands peak performance from every mechanical component . . . no matter how violent the torture. Roller bearings, for instance, must perform so well they can be taken for granted. This is a familiar challenge for Bower engineers. Their many original contributions to roller bearing design have helped improve performance, minimize maintenance and reduce bearing failure to a rarity. That's why Bower Roller Bearings are widely used by the automotive and practically every other type of industry. If your product uses bearings, select from Bower's complete line of cylindrical, tapered and journal roller bearings. For technical assistance, write Bower Roller Bearing Division, Detroit 14, Michigan.

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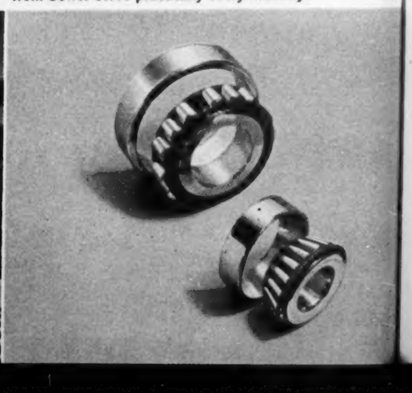

In BUSINESS this WEEK April 15, 1961

GENERAL BUSINESS

THE DEPARTMENTS

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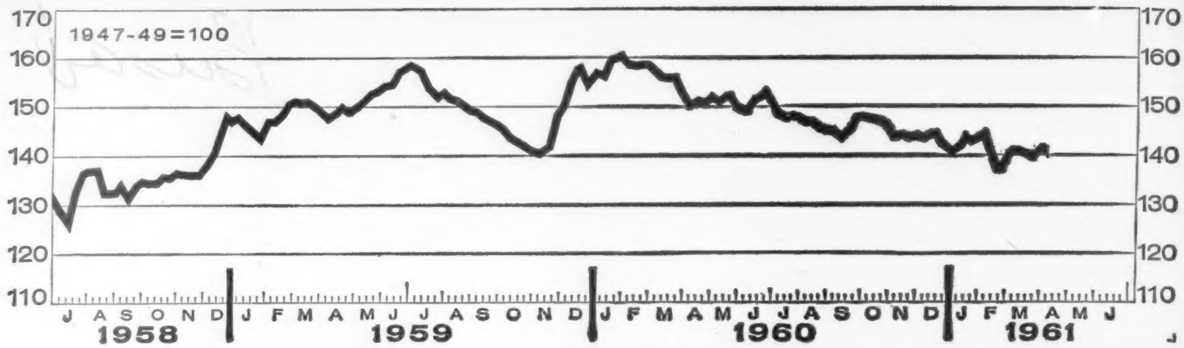
NUMBER 1650

FIGURES of the WEEK



	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**133.3**	**151.1**	**141.3**	**142.3r**	**141.7***
PRODUCTION					
Steel ingot (thous. of tons)	2,032	2,417	1,573	1,632r	**1,696**
Automobiles	125,553	133,460	91,202	101,571r	**94,343**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$52,412	$66,300	$70,473	$65,891	**$65,130**
Electric power (millions of kilowatt-hours)	10,819	13,852	14,353	14,163	**14,182**
Crude oil and condensate (daily av., thous. of bbls.)	6,536	7,028	7,353	7,351	**7,227**
Bituminous coal (daily av., thous. of tons)	1,455	1,418	1,048	1,104r	**1,151**
Paperboard (tons)	247,488	316,815	323,093	320,592	**305,857**
TRADE					
Carloadings: miscellaneous and l.c.l. (daily av., thous. of cars)	70	61	51	52	**53**
Carloadings: all others (daily av., thous. of cars)	47	39	33	32	**32**
Department store sales index (1947-49 = 100, not seasonally adjusted)	121	143	122	140	**150**
Business failures (Dun & Bradstreet, number)	198	333	318	350	**343**
PRICES					
Industrial raw materials, daily index (BLS, 1947-49 = 100)	89.2	93.0	92.0	92.1	**92.4**
Foodstuffs, daily index (BLS, 1947-49 = 100)	90.5	76.5	78.2	78.1	**78.6**
Print cloth (spot and nearby, yd.)	19.8¢	20.5¢	17.5¢	17.5¢	**17.5¢**
Finished steel, index (BLS, 1947-49 = 100)	143.9	186.8	186.2	186.2	**186.2**
Scrap steel composite (Iron Age, ton)	$36.10	$33.50	$37.83	$39.50	**$39.17**
Copper (electrolytic, delivered price, E&MJ, lb.)	32.394¢	33.000¢	29.000¢	29.000¢	**29.000¢**
Aluminum, primary pig (U. S. del., E&MJ, lb.)	20.6¢	26.0¢	26.0¢	26.0¢	**26.0¢**
Aluminum, secondary alloy #380, 1% zinc (U. S. del., E&MJ, lb.)	††	24.99¢	22.73¢	22.61¢	**21.80¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$2.34	$2.12	$2.02	$1.95	**$1.99**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	34.57¢	32.05¢	31.00¢	31.27¢	**31.30¢**
Wool tops (Boston, lb.)	$1.96	$1.73	$1.66	$1.62	**$1.62**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	31.64	56.34	63.52	65.45	**66.21**
Medium grade corporate bond yield (Baa issue, Moody's)	3.59%	5.18%	5.02%	5.01%	**5.00%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	2–2⅛%	4%	3⅛%	3%	**3%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	††	58,797	58,970	59,488	**59,537**
Total loans and investments, reporting member banks	††	100,849	108,743	108,673	**109,313**
Commercial, industrial and agricultural loans, reporting member banks	††	31,787	32,357	33,063	**32,937**
U. S. Gov't guaranteed obligations held, reporting member banks	††	24,361	30,029	29,155	**29,685**
Total federal reserve credit outstanding	26,424	26,950	28,014	27,863	**27,973**
Gold Stock	21,879	19,397	17,373	17,388	**17,388**

MONTHLY FIGURES OF THE WEEK

		1953-55 Average	Year Ago	Month Ago	Latest Month
Average weekly earnings in manufacturing	**March**	$73.36	$90.91	$89.86	**$90.71**
Retail sales (seasonally adjusted, in billions)	**March**	$14.5	$18.2	$17.9	**$18.1**
Wholesalers' inventories (seasonally adjusted, in billions)	**February**	$10.6	$12.7	$13.1	**$13.1**
Retailers' inventories (seasonally adjusted, in billions)	**February**	$21.4	$24.8	$25.2	**$24.9**
Imports (in millions)	**February**	$902	$1,289	$1,124	**$1,046**
Domestic air cargo (express and freight, millions of ton miles, A.T.A.)	**January**	22.5	35.6	43.3	**37.3**

** Preliminary, week ended April 8, 1961.*
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.

THE PICTURES—Cover—John Groth; 25—Sovfoto; 28—Jim Mahan; 34—(left) Chrysler Corp., (right) WW; 47—Ernest Reshovsky; 56-57—Bruno Junker; 72—John Groth; 90—Herb Kratovil; 96—Herb Kratovil; 103, 104—Joan Sydlow; 112, 113—George Harris; 114—Grant Compton; 146—Herb Kratovil; 153—Jim Mahan; 158, 160—Herb Kratovil.

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READERS REPORT

Impressive Job

Dear Sir:

We consider it [Special Report on Arms Control—BW—Mar.18 '61p54] of particular importance that the public . . . become as knowledgeable as possible on the technical issues of this complex subject. It seems to me that you have done an important service in preparing and publishing this straightforward exposition.

L. C. VAN ATTA
SPECIAL ASSISTANT FOR ARMS CONTROL, OFFICE OF DEFENSE RESEARCH & ENGINEERING
WASHINGTON, D. C.

Dear Sir:

The report is a most impressive job and you deserve congratulations. I was especially impressed by some of the information on existing military capabilities, some of which has not, I think, been previously published. There are a very few minor technical matters at various points in the report that I might question, but these are so minor. . . .

D. G. BRENNAN
MASSACHUSETTS INSTITUTE OF TECHNOLOGY
LEXINGTON, MASS.

Dear Sir:

. . . I think it is a masterly gathering together of material and then presenting it in the form of a very able synthesis and then coming to conclusions. I only hope that it will receive the attention from the tycoons that it should. . . .

EDWARD L. BERNAYS
NEW YORK, N. Y.

Two in One

Dear Sir:

There is no such airport as Dallas-Fort Worth [BW—Mar.25 '61,p123]. Business Week compounds an error by mentioning it three times.

Dallas is served by its own Love Field, a little over six miles from the business district and major hotels; Fort Worth, by its Amon Carter Field, something over seventeen miles from its downtown area.

GEORGE DU BRUL
DALLAS, TEXAS

• Yes, but the airline industry lumps the two cities together—and we do, too—because no major carrier is certificated into one airport without the other.

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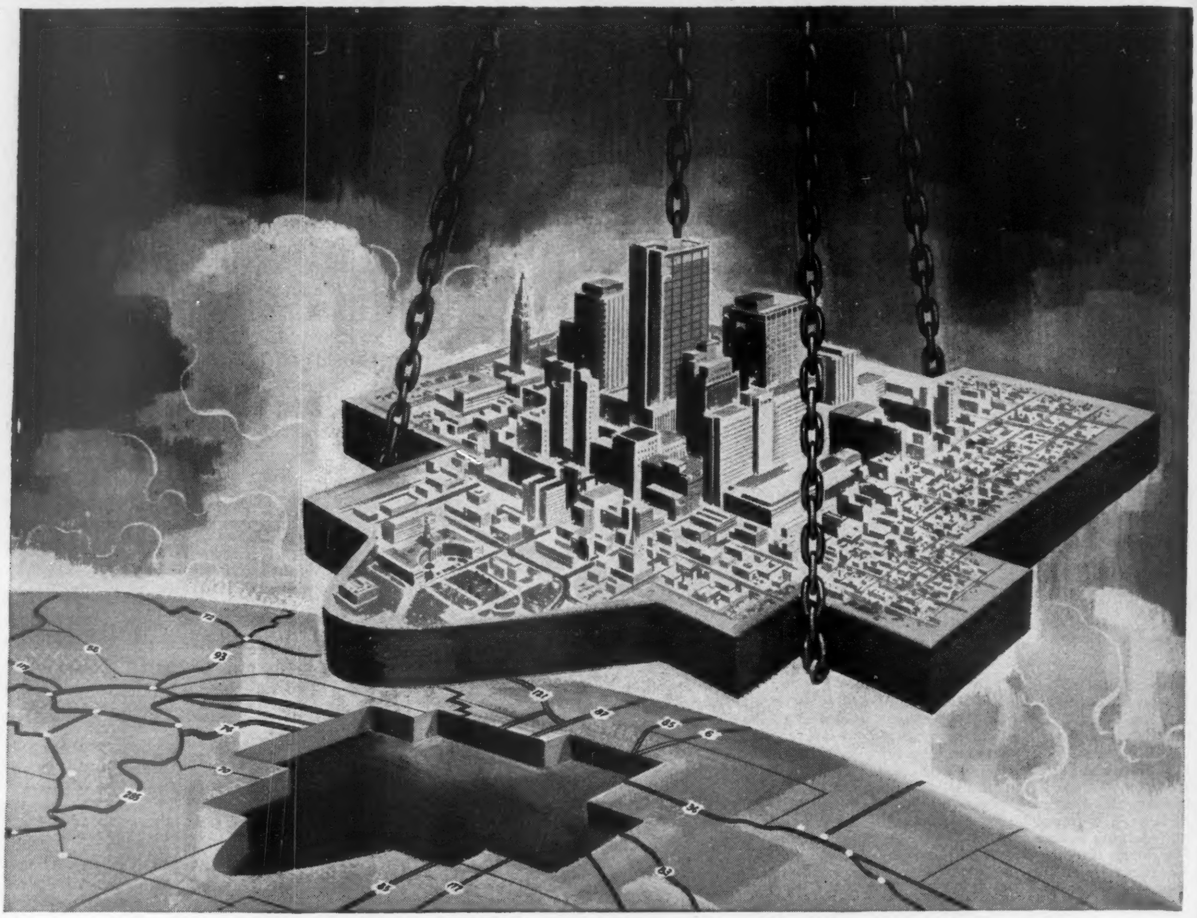

Every day...we transport a U.S. city!

Enough people and products to build, populate and maintain a city the size of Denver are transported throughout the United States every 24 hours. Contributing to this gigantic movement by highway, rail, air and pipeline is Rockwell-Standard's nationwide network of 22 plants.

From its axle, transmission, spring and brake plants come vital components for trucks and buses plus important parts for off-highway, construction and farm equipment. Its aircraft subsidiary provides two of America's leading airplanes for business and pleasure, the Aero Commander and Commander Alti-Cruiser. For passenger cars, Rockwell-Standard supplies seats, springs and bumpers. Still another subsidiary manufactures filters of all types for the railroad, trucking and aircraft industries.

Rockwell-Standard's basic philosophy is two-fold—the manufacture of products essential to national growth and progress, and a continuing program of aggressive research, engineering leadership and sound expansion. Fifty years of progress attests to the soundness of this business philosophy.

This is one of a series of statements to acquaint you with the broad scope of the activities of Rockwell-Standard Corporation.

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BUSINESS OUTLOOK

BUSINESS WEEK
APR. 15, 1961

A BUSINESS WEEK SERVICE

The consumer may turn out to be the hero of the recovery.

Businessmen who feared that the breadwinner might be inclined to hold on to his hard-earned dollars in these uncertain days can breathe a sigh of relief; he's in a spending mood, after all.

Consumers went out and spent close to $18.1-billion, seasonally adjusted, in the nation's retail establishments during March—apparently little concerned with all the gloomy talk emanating from Washington earlier.

This was the best sales record of any month since November, though considerably short of last April's record high of $18.9-billion

A sizable chunk of the additional spending went into the tills of apparel dealers and department stores for new spring finery. This year, Easter arrived two weeks earlier than in 1960, and added enough zip to nondurable sales to lift them $60-million over February.

But the gain that meant something is in durables. Hardgoods sold at retail reached $5.5-billion in March—$123-million better than February, after adjustment for trading day differences and seasonal variations.

Last year, durables sales dropped $73-million from February to March, mostly because of severe weather conditions that kept buyers at home.

Autos and automotive products made a strong showing in the March sales tally, reflecting new car sales of close to a half-million units—the best since December. Sales of cars and accessories increased $577-million over February, on an unadjusted basis, compared to only $457-million in the same period last year.

Appliance and furniture dealers can point to a better gain between February and March than last year, too, as well as the best figure so far in 1961—but there's little consolation in that. Sales were still lower than any month of 1960, and all but one of 1959. Of course, much of the decline here is traceable to the slump in homebuilding.

—•—

One reason consumers were so much freer with their money in March is that they were freer of debt than they have been at any time since August.

Since December, consumers have paid down their installment and monthly charge accounts by more than $1.9-billion. Repayments of installment debt in February amounted to $518-million more than new credit—the deepest net reduction for any month in recent history.

By the end of February, consumers were in pretty good shape (the 64.7-million with jobs, at any rate). The stage was set for another round of spending, and it came on cue.

—•—

Businessmen, too, surfaced in March after the long, cold winter of stock paring. The men who do the buying for industry showed signs of loosening their tight grip on inventories when they were canvassed last month by the National Assn. of Purchasing Agents.

While still keeping a weather eye on world conditions, price trends, and delivery schedules, **purchasing executives seem a little less shy toward forward commitments than at any time since last spring.**

No impulsive movements are indicated, but 16% of those responding to the survey are extended for 90 days or longer on production materials—up from only 12% in February.

This general lengthening of forward buying does not indicate a movement to stockpile, however; members continue to show great resistance to inventory increases, says NAPA.

—•—

Despite this cautious approach to inventory building, it is increasingly apparent that industrial activity is perking up.

Latest evidence shows up in the small but significant increase in the average factory work week. Economists regard any gain in this key economic barometer as a sign that factories are stepping up production, and soon will start hiring more workers.

Factory workers spent an average 39.1 hours on the job in March—up from 38.9 hours in February, and the third consecutive expansion of the work week since December.

Normally, there is little change in this period, but **the average got a better-than-seasonal lift from stepped-up activities in textiles, apparel, and chemicals in the nondurables sector, and from primary and fabricated metals in hardgoods.**

Paychecks were a little fatter, too, as a result of the longer hours. Factory workers took home an average \$90.71 in March, against \$89.86 the month before. Thus average earnings in March were only 20¢ below the same month last year.

Pay boosts centered mostly in softgoods, with yearly gains of \$3 or more per week in food, tobacco, and petroleum.

Manufacturing employment dropped off by 24,000 jobs in March. Losses centered almost entirely in hardgoods, with mid-month auto layoffs taking the heaviest toll.

Conditions look better and better in the construction industry. Employment here rose by 200,000 jobs—the largest gain for this month in the postwar period.

Building projects delayed by weather in previous months got under way in March, adding even more zest to an industry that fared better than most during the recession.

And judging by the mounting backlog of contract awards, **it seems a safe bet that construction employment will continue at a high level for the rest of this year.**

—•—

Here's another cheering note on the employment front: In the week ended Mar. 25, new claims for unemployment insurance under state programs dropped to the lowest point since last November.

Similarly, **total compensated unemployment has tapered off steadily** after hitting a high in mid-February.

BUSINESS WEEK

APRIL 15, 1961

NUMBER 1650

JUBILANT MOSCOW THRONGS greet the news of space triumph: Banner hails "The first Soviet Cosmonaut."

How Russia Won Man-in-Orbit Race

On Wednesday morning, at 9.07 a.m., Moscow Time, the stunning announcement came over Moscow radio. The first man ever to be fired successfully out of the earth's atmosphere was aloft and moving into earth orbit. His capsule, a five-ton highly instrumented chamber, had separated from its last-stage carrier rocket; all environmental and communications systems were operating well.

One hour and 48 minutes later—after an orbital flight of 89.1 minutes—Major Yuri Alexeyevich Gagarin, a 27-year-old jet pilot (picture, right), was back on Soviet soil. Wild celebrations broke forth in the streets as Gagarin's picture was flashed on Moscow television. Shortly after stepping from his space ship, Gagarin was quoted as saying: "I feel well. I have no injuries or bruises."

• **Power and Guidance**—The Soviet feat was immediately hailed by scientists and statesmen the world over as one of the most outstanding technical accomplishments ever recorded. It was not unexpected. Free World rocket experts had been saying for some months that the Russians had clearly proved—in their Venus shot last February (BW—Feb.18'61,p32)—that they had both sufficient rocket power and adequate guidance and control systems to make manned orbital flight possible. The only unknown quantity was how soon Russian technicians would be able to turn out a space capsule that was engineered well enough to keep a man alive.

Early accounts (both in flight and after Gagarin had landed safely) indicate that Soviet scientists have solved

YURI GAGARIN is first man to reach fringes of earth's atmosphere—and return.

this key element in manned space exploration, too.

• **Control Factor**—Gagarin's chamber, however, was not designed for interplanetary space travel. Unlike space explorers, the first astronaut had no real control over his space ship. Rather he was put on board to observe and be observed.

In interplanetary travel, man will have to take a more active part in control of his flight. Moreover, extended space flights will demand the development of systems to support life over a far longer period than was the case in the first orbital flight this week. The Russians say they are working on some of these problems, but make no claims that they have solved them yet.

• **Accomplishments**—Significant in this week's shot, however, is the precision with which Russian scientists performed their world-resounding feat:

• They accomplished it almost exactly three and a half years after the first Sputnik was fired on Oct. 4, 1957 (BW—Oct.12'57,p39).

• They put their first man into a neat, almost-circular flight path. At apogee (the farthest he traveled from the earth's surface) Gagarin was out 188 miles; at perigee (the closest point in his orbit to the earth's surface) he was at 110 miles.

• This particular shot was the fifth in a series of closely related space-ship firings that started on the eve of the ill-fated summit talks in Paris last May. First came the firing of a 4.5-ton unmanned dummy space station carrying a 3,249-lb. instrument payload. Next came several tests of animals in the capsule. Then there was the launching and recovery of an instrumented spaceship early last March. And, as the final step in the orderly developmental program, the manned orbital flight this week.

• **The Rocket**—In the immediate hours after Gagarin took his much-acclaimed ride, there were still no official Soviet announcements on the details of the multi-stage rocket that boosted him into earth orbit. This was not unusual as the Russians are often vague about this part of their space exploits. But U. S. scientists are convinced that, for the rocket's first stage, Soviet scientists used a converted T-3—advanced versions of which are said to produce close to 1-million lb. of thrust. This is about three times as much thrust as the National Aeronautics & Space Administration can hope to get from Atlas—when a U. S. astronaut climbs into a Mercury capsule for his first earth-orbital ride sometime late this year.

The Soviet space ship during its single trip around the earth did not pass over U. S. tracking stations on this continent. But some hours after launch, U. S. radar locked onto an object that presumably is the burned-out case of the rocket that put the space ship aloft. Its flight path is almost exactly that claimed for the space craft itself; its speed is only a fraction of a second slower.

This is precisely what might be expected, since U. S. radar stations had not been advised, in advance, when to expect the Soviet shot or in what inclination (from the equator) it was to be fired. Jodrell Bank, the giant British listening post, was out of tracking range in the rocket's first orbit around the earth.

Even on the day of the flight, though, reporters and congressmen were asking questions about the tracking program. It was not until 8:30 a.m. EST (the flight was at 1:07 a.m. EST), that an Air Force tracking station got a fix on the burned-out rocket casing.

• **Crossed Signals**—There was some confusion between the White House and NASA (speaking for the Defense Dept.) over just when the U. S. tracking system first caught wind of what was up. Speaking for Pres. Kennedy, press secretary Pierre Salinger claimed early Wednesday that the U. S. had tracked the burned-out rocket after it left the Asian land mass—and trailed it through the day. But NASA said that as far as it knew, tracking started some seven hours later.

The House Science & Astronautics Committee, under the chairmanship of Overton Brooks (D-La.), called in top NASA officials for a briefing, with indications that the U. S. satellite detection network will come under Congressional scrutiny.

• **Voice From Space**—By radio, from over South America, Gagarin reported in that he felt well; from over Africa, he said that he was not suffering any ill effects from either his initial acceleration or his subsequent state of weightlessness. His top speed, U. S. scientists are calculating, must have been over 17,000 mph.—many times faster than a man has ever moved before. In decelerating, in coming back to earth (despite the use of retrorockets and parachutes to slow him down), Gagarin must again have been exposed to at least 10 Gs. (This is 10 times the force of acceleration due to gravity.)

Soviet officials maintained contact with Gagarin on two standard short-wave radio frequencies—9.019 and 20.006 megacycles—and also kept a running account of his physical appearance by television monitor. (In its early manned space flights, the U. S. will not be able to have a television camera aboard because of payload limitations.)

• **Sites Unknown**—Neither the launching location nor the return landing site of the Soviet space vehicle has been announced. Similarly, there were few precise details on the condition of the space craft after it had landed. It seems likely to U. S. observers, however, that the launch site must have been one of the Russian ICBM test-launch bases south and east of the Ural Mountains and that the return site must have been north and west of this—somewhere northeast of Moscow, but close to the city. Using this particular flight path, the Russians were able to track their first astronaut through most of his journey by means of ships, stationed both in the Pacific and South Atlantic oceans. But because the earth was rotating in a west to east direction under his flight path, this meant that if they wanted to recover him on Soviet soil, they had to bring him back after one orbit. If not, they would have had to wait until his orbit came back over Russian territory almost a day later.

They chose to bring him back after only one pass around the earth.

• **Official Calm**—Official Washington generally reacted calmly to the most recent Soviet space spectacular. Space Administrator James E. Webb admits that the U. S. is "disappointed" by being beaten into manned space flight by the Russians. But this in no way means that there will be an immediate shift of plans in the scheduled U. S. man-in-space space program. Between now and the time when one of the U. S. astronauts is fired into earth orbit, there are about a half-dozen more tests to be run in the program. One will be the MR-3 manned ballistic flight later this month (BW—Apr.8'61,p24). This will carry a man in a Mercury capsule to a projected altitude of 115 miles, and down the Canaveral test range some 290 miles. Another is a test shot of an instrumented Mercury capsule into orbit with an Atlas ICBM booster instead of a Redstone. Later Atlas-Mercury shots will put an empty capsule into orbit and return it to earth and then send a trained chimpanzee (like Ham) into orbit and back.

• **Potential Speedup**—Theoretically the U. S. could shave some months off its Mercury test schedule. Some scientists think we may be able to put an astronaut into earth orbit by late this fall. But any speedup depends on the success of our own shots—this month and next.

Even if everything goes perfectly, U. S. officials admit, the Russians will be able to run rings around the U. S. in manned space feats until mid-1963. That is when the first U. S. 1-million-lb.-thrust rocket—the Centaur—will be ready for use. Centaur will be able to put an 8,500-lb. weight into a 300-mile earth orbit.

Behind this will come Saturn, a booster that should deliver about 1.5-million lb. of thrust. It is scheduled to become operational sometime in 1966.

Why Kennedy's Program Lags

Pres. Kennedy is emerging after three months in the White House as a chief executive who brings an inquiring mind and a persuasive personality to bear with equal facility on problems ranging from Laos to disposal of a surplus aluminum plant in Michigan.

In three-day meetings with British Prime Minister Harold Macmillan and long talks with West German Chancellor Konrad Adenauer, he has established himself beyond question as the leader of the Western alliance.

His vigor, his appointments, his personal style, and his professional grasp of the details of government and diplomacy have won wide acclaim.

But his efforts to fulfill his campaign promise to "get the country moving again" in domestic areas such as federal aid to education, medical aid to the aged, and over-all economic growth run up against a wall of apathy. He finds himself in the strange dilemma of being unable so far to translate his personal popularity into the substance of political power in Washington.

• **Man and Program**—Congress is responding readily enough to anti-recession measures such as extended unemployment compensation and bigger housing programs (table). Long dissatisfied with the administration of foreign aid, Congress is ready to go along with reorganization of the program. But measures that represent real innovation, such as long-term commitments in foreign aid or a major overhaul of the tax structure, face trouble.

A Western Democratic senator returning to Washington after sounding out opinion at home sums up the impression Kennedy has made:

"People come up to you on the street and praise the way the President has taken hold of the job—and in the next breath ask you to vote against the school bill or 'socialized medicine.'"

• **International Focus**—Kennedy is more vitally concerned with rebuilding U.S. leadership in NATO, accomplishing a nuclear test ban, and creating a neutral government in Laos than he is with minimum wages or price supports. He has personally taken over the conduct of international relations, while leaving more of the domestic details to subordinates.

Despite his campaign pledge to "stay in Washington" and return to handling foreign affairs through diplomatic channels, he plans a visit to French Pres. Charles de Gaulle in Paris.

Kennedy deeply believes that history will measure the success or failure of his Administration in terms largely of war and peace.

His leadership in foreign affairs so far

Already passed or sure of passing

Extend temporary unemployment compensation.

Establish Organization for Economic Cooperation & Development (OECD).

Higher supports and acreage reduction for feed grains.

$394-million federal loan-grant program to help depressed areas attract industry. Passed both Houses; compromise in works on whether to finance through appropriations or through the Treasury.

Raise minimum wage to $1.25 in two stages and extend coverage to 4.3-million workers. House passed $1.15 and extended coverage to 1.2-million; Senate will follow Kennedy, compromise with House.

Extend Reorganization Act permitting President to reorganize agencies subject only to Congressional veto.

Chances are favorable

$3.2-billion housing program including increased urban renewal, more public housing, 40-year no-downpayment loans. Also more for college housing and classrooms.

Lower Social Security retirement age for men to 62, increase widows' benefits. Already approved by House Ways & Means Committee.

Tax reform to stimulate plant investment, with offsetting revenue measures such as withholding taxes on dividends.

Continue 4¢ gas tax, raise taxes on truckers to finance highway program. Truck taxes likely to be modified.

Establish Peace Corps already being formed.

Reorganize foreign aid program. Request for long-term commitments financed by borrowing through Treasury is likely to be stricken, however.

$500-million Latin American economic program.

Defense: Bigger nuclear forces (Polaris, Minuteman, Skybolt); more conventional arms, small increase in manpower; cancel Titan ICBM. Congress will fight cuts for B-70, atomic plane, Nike Zeus anti-missile system.

Double the current $50-million annual grant program for sewage treatment plants.

Prospects are poor

Three-year, $2.3-billion-grant program for school construction, teachers' salaries. Jeopardized by issues of aid to parochial and segregated schools.

Medical aid to aged financed by Social Security system.

College scholarships — $900-million over eight years.

Comprehensive farm program to raise support prices, cut production.

has drawn high praise. Macmillan was impressed with Kennedy's grasp of problems, and the foreign press has been laudatory. Kenndy's strong stand against Castro and in favor of the Cuban revolution's original aim of social and political reform has been acclaimed in South America.

• **Different**—Domestically, the response has been different. None of Kennedy's appeals for New Frontier legislation has generated much mail to Congress demanding action. Republicans and Southern Democrats have not wanted to oppose Kennedy outright; they are not sure yet how safe it is. But they have hacked at the edges of his program, forced postponement of major changes.

Congress extended unemployment benefits, for instance, but turned down a permanent increase in unemployment taxes. Even when Kennedy was rating 72% in the Gallup Poll, Congress was sailing into his minimum wage bill.

• **Handicaps**—One reason has undoubtedly been the widespread feeling that, except for pockets of nagging unemployment, the country is basically well off and the recession is ending.

More important is the fact that Kennedy started off with a Congress in which the Democrats had lost 20 House seats—almost all liberals. The great majority of Democratic representatives ran ahead of the President in their districts, and so do not feel indebted to him.

"We never expected this session to be anything but a cliff-hanger all the way," says a key aide.

• **Successes**—Viewed against these handicaps, Kennedy has not been doing too badly. Pres. Eisenhower riding in on a popular wave, sent 19 messages to Congress before the 1953 Easter recess; Congress passed only two of the measures in that time and rejected one. Of Kennedy's 16-point "must" program, five bills have passed both houses, and five have passed one or the other.

In addition, he won a fight to install more Kennedy supporters on the House Rules Committee, which has been dominated for years by the Southern Democratic-Republican coalition.

• **Limited Program**—But the successes say more for the modesty of his program than for the President's sway over Congress. The measures passed or near passage now are mostly the "easy stuff"—the anti-recession measures. The tough ones are yet to come.

In defense spending, Kennedy has asked only a $650-million increase in the next fiscal year, and has put off indefinitely any attempt to reorganize the Defense Dept. He has scarcely begun to tackle the problem of economic growth; the coming tax message dealing with incentives for plant investment is only a small start toward a major tax overhaul.

Some Kennedy supporters suggest that the reason he has gotten such lukewarm response from Congress is that he has asked too little.

"He has been talking a more desperate situation than he prescribes remedies for," is an oft-heard appraisal.

• **Long Courtship**—The modesty of the program is calculated, however. Kennedy decided early that he would have to consolidate his position with Congress before he undertook any major innovations. He wanted to placate fears in the business community that the Kennedy program would lead to inflation, cause a further gold drain.

Kennedy has set about to use his intimate knowledge of Congress to build up rapport that will underpin a more ambitious program in the future. He lets congressmen announce patronage appointments wherever appropriate, keeps Congress leaders and committee chairmen informed of what he is doing, doesn't hesitate to call any congressman with a special interest in a bill to get his views.

When the occasion demands, he also uses his power to dispense favors. In the fight to curb the Rules Committee's power, he put Interior Secy. Stewart L. Udall to work twisting arms of congressmen interested in dam projects or appointments. When the depressed areas bill came up—following Kennedy's House defeat on minimum wages—word was put out that Kennedy's lieutenants were in the gallery recording votes.

At the present stage, though, Kennedy seems willing to settle for merely getting the principles of his program through—on medical aid, say—and expanding the programs later.

His strategists figure, too, that settlement in Laos or other diplomatic triumphs, if they come, would consolidate his position as a national leader whom Congress would have to heed on domestic matters as well.

Drawing the Big Issue

Economic policies begin to draw criticism—in Administration and out—as too cautious to meet unemployment problem.

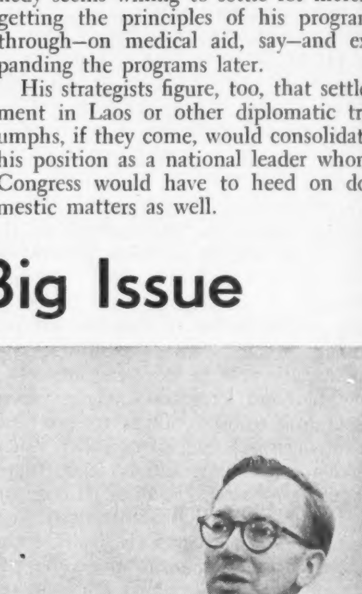
In the area of national economic policy, Pres. Kennedy has thus far played his hand with great care. His spending requests to Congress (page 27) have been relatively modest—and it's likely that not all of them will be translated into new legislation and appropriations, in any case.

On the tax side, Kennedy intends to submit within the next week proposals for additional incentives for business investment; but he means to offset any tax loss from this by "closing loopholes" elsewhere.

The President's cautiously stimulative fiscal policy has not been quite cautious enough to satisfy a conservative Congress that objects even to a moderately unbalanced budget. On the other hand, it has been sharply criticized by some economists within the Administration, as well as by many outside, as far too cautious when there is persistent unemployment resulting from a rate of economic growth too sluggish to provide new jobs for a growing labor force.

• **From All Sides**—Not all critics who charge too much timidity are to the left of Kennedy. Some influential critics—such as Herbert Stein, research director of the Committee for Economic Development—are political conservatives.

Kennedy's own economists are speaking up more and more sharply in public about the Administration's key dilemma



CHMN. W. W. Heller of CEA poses question of how to give recovery a strong boost.

—how to nurture a potential recovery into something substantial when federal tax machinery operates (according to recent experience) to start pulling billions out of the economy just as recovery gets under way.

• **Problem**—Last week Chmn. Walter W. Heller of the Council of Economic Advisers (picture) detailed the problem before the National Press Club this way: The tax system now tends to produce a balanced federal budget when the Gross National Product hits a point that still leaves unemployment as high as 5.2%. If you decide that 5.2% unemployment is too high (the latest figure is 6.9%),

you can either increase government spending, or you can turn some tax revenues back to the taxpayers. Either of these—or some of both—would help boost the economy upward, which in turn would make it faster-growing.

Without action of either kind, Heller and other top Kennedy advisers fear that we will get a mild recovery that would edge slowly upward and sooner or later give a balanced budget while leaving unemployment still too high.

In fact, they have already figured that the upturn by yearend may well leave the unemployment ratio in the 6% to 7% range where it is now.

• **Pressing**—Kennedy's aides are sensitive to this kind of criticism of their program—and there's no doubt they are pressing the issue. For instance, Dr. Paul A. Samuelson, MIT economist and a top Kennedy economic adviser, takes the line that the Administration's programs are too weak a stimulant now.

Heller put a fresh touch into the debate this week when he told the Joint Economic Committee of Congress that European officials are raising the question whether Kennedy's projected deficits are "too small." He and his fellow council member James Tobin suggested that without stronger federal action recovery might be halting and slow.

Budget Director David E. Bell, however, told the Commerce Dept.'s Business Advisory Council last week that the President "does not consider any additional action necessary at the present time." The overtones picked up by his audience seemed clear—Kennedy is still overruling those advisers and critics who want a tax cut or more spending now.

• **Tax Cut**—Where Kennedy's official economists are inclined to stress more spending, more conservative economists emphasize tax reduction. Before the Joint Economic Committee last week, the CED's Stein correlated the 1955-59 swing from surplus to deficit to surplus with unemployment rates.

He concluded that the budget comes into balance and starts to generate a surplus when unemployment is still above 5%. He figures that in first-half 1960, with 5.2% unemployed, the surplus was running at an annual rate of \$5.2-billion; and in second-half 1960, with 6.1% unemployed, at \$1.2-billion.

But Stein—speaking for himself rather than CED—told BUSINESS WEEK he favors a permanent tax cut to reduce the drag on economic growth. He would want a tax system yielding a moderate surplus of, say, \$3-billion to \$5-billion at full employment, instead of the present system that would yield a \$12-billion surplus or more at full employment—if full employment were reached. Stein thinks the more moderate surplus would help contain inflationary pressures without throttling expansion and thus, in effect, inducing recessions.

U.S. Backs Anti-Castro Rebels

Kennedy has decided to give active support, but he and Rusk aim to keep U.S. involvement at minimum, avoid direct military intervention.

Pres. Kennedy has decided to give active U.S. support to Cuban insurgents in their mounting effort to topple the Communist-dominated regime of Fidel Castro.

The President made a firm decision to do this about a month ago. His decision is a marked departure from the previous policy of relying on economic sanctions and diplomatic encirclement to bring about the collapse of Castro.

The new U.S. policy clearly involves political risks abroad and at home. But Kennedy has concluded that the dangers of continued inaction outweigh the risks of action.

The President this week ruled out direct U.S. military intervention in Cuba. But Administration officials were reluctant to predict what the U.S. might have to do if confronted with new unforeseen events. The President also didn't rule out less direct forms of military assistance to the rebels.

• **White Paper**—You could read the policy change between the lines of last week's State Dept. white paper on Cuba. This called the Castro regime a "clear and present danger" to the "authentic revolution" of the Americas. It pledged "full and positive" U.S. support to help the Cuban people achieve freedom and social justice.

Privately, Administration officials go well beyond the cautious phrasing of the white paper and the President's statements. They leave no doubt that the U.S. government is committed to giving strong encouragement and support to the Cuban insurgents—and even might intervene militarily at some stage if the insurgents seem to be on the verge of being crushed.

• **Minimum Involvement**—It is important to note, however, that Kennedy and Secy. of State Dean Rusk are determined to keep U.S. involvement in the Cuban struggle to an absolute minimum. Every effort will be made to avoid direct U.S. military intervention.

The military strategy of the Cuban rebels outlined by Dr. Jose Miro Cardona, president of the Revolutionary Council that represents all major non-Batista groups opposing Castro, reduces the need for any military intervention from the U.S.

The rebel leadership has decided against a major invasion of Cuba by the 5,000 exiled guerrilla forces that have been training in Guatemala, Florida, and Louisiana. Landing operations will be small-scale, at widely scattered points, almost certainly will not be launched from U.S. shores, nor with obvious U.S. logistic support.

• **Main Hope**—The main reliance will be put on rebel forces in Cuba itself. One group is already fighting Castro in many places. It is steadily gaining in strength and stepping up its campaign of sabotage, passive resistance, and guerrilla harassment.

But the main hope of an anti-Castro victory depends upon massive defections from Castro's armed forces and militia, which number about 300,000. The anti-Castro rebels, inside and outside Cuba, will attempt major military engagements only after substantial numbers of Castro's troops defect. As for the role of the U.S., a Washington official sums it up this way: "The Cuban revolutionary leaders don't want to be set up in Havana with foreign bayonets. They are fighting for the freedom and dignity of their country, and they believe that they can win on their own. We believe so, too. As for what the U.S. might do in some hypothetical situation—it is wise not to try to look too far into the future."

• **Prepared for Attacks**—Kennedy and Rusk know that regardless of how successful they are in keeping the U.S. in the background, the U.S. is bound to be accused by the Communists and by many Latin Americans, Asians, and Africans of intervention in Cuba.

The Soviets are bound to pull out all the stops on their propaganda organs. Khrushchev may even use U.S. encouragement of the Cuban rebels as a pretext to break off the nuclear test ban negotiations in Geneva, for which the Russians are showing little enthusiasm anyway. But Soviet military countermoves are not expected by U.S. Russian experts—certainly not in the Western Hemisphere, probably not elsewhere.

Washington officials believe that the U.S. can cushion the adverse political reaction by taking the position that it has not instigated a Cuban insurrection. The official line will be that the U.S. sympathizes with the Cuban rebels, as it did with Castro's revolution before it was betrayed to Communism. But revolutions can be fought only by the people concerned, and U.S. assistance is limited to moral support.

• **Stronger Position**—Beyond that, Kennedy and Rusk reason that nothing succeeds like success. If the Cuban revolu-

tion succeeds, they believe that the U. S. position in the world and the Administration's position at home will be strengthened.

Latin American resentment will blow over, they think, particularly when the U. S. demonstrates that it supports the social and economic reforms in Cuba sought by Castro and the new Cuban rebels alike. The new U. S. emphasis upon political and social reform and economic development throughout Latin America will help. Evidence that the U. S. will not tolerate Communist-dominated regimes in the hemisphere should increase respect for the U. S. in Latin America, strengthen groups working for reform but against Communism.

Success in overthrowing Castro would also help the U. S. in the cold war, Kennedy believes. It would demonstrate that Khrushchev cannot protect his clients outside the Iron Curtain, and it should make other countries hesitate before accepting Soviet support. Firm U.S. action might also make Khrushchev tread more cautiously in Laos and the Congo.

In the U. S., there is little doubt that the overthrow of Castro would increase the prestige and popularity of the Kennedy Administration in Congress and the country.

• **Pressure of Events**—The timing of Kennedy's decision to back action against Castro was forced to some extent by events. As Castro's tyranny became more ruthless in the early months of the year, resistance to it built up. Pressure mounted on the President for a decision on how much support the U. S. would give the rebels.

Also, the Soviet-sponsored buildup of Castro's military forces has reached formidable proportion. According to the State Dept. white paper, 30,000 tons of arms worth an estimated $50-million have flowed into Cuba from behind the Iron Curtain since mid-1960. Arms include tanks and heavy artillery. Cuban pilots are training in Czechoslovakia and the Soviet Union, and the arrival of Soviet MiG fighters in Cuba is expected any day.

The rapid military buildup poses the threat that Castro's regime may soon be invulnerable to overthrow without massive outside assistance.

• **Active Leadership**—The new Kennedy policy toward Cuba says, in effect, that the U. S. must do more than passively resist the spread of Communism through diplomatic methods. Rather, the U. S. must try to lead the historic changes that are sweeping the world. That may mean giving support to "good revolutions" waged for freedom and social justice. In Latin America, it means a frank extension of the Monroe Doctrine to guard the hemisphere against political as well as military aggression from outside.

Trading Pace Mounts . . .

And Still the Wav

This week, after several months of a feverish buildup in trading volume, stock prices broke out into new and unexplored heights.

Wall Street showed no special elation. A breakthrough had been expected, and the only question is just how far the rise will carry. Brokers, swamped with orders from investors, seemed confident that stock prices would continue to climb. They predict that the rise will be punctuated by pauses rather than by any substantial reverses.

The demand for common stocks seems inexhaustible. In the last few months, brokers have become used to 5-million-share days—about 50% more than normal for a year ago. And they see no letup as yet.

• **Wide and High**—Clearly, the new bull market has been created by a very widespread rise in demand, far wider than in any past bull market. And the rise in prices since last November has been attracting an increasing number of investors to the bandwagon. While many traders have been taking profits, the demand for stocks is still pushing prices up.

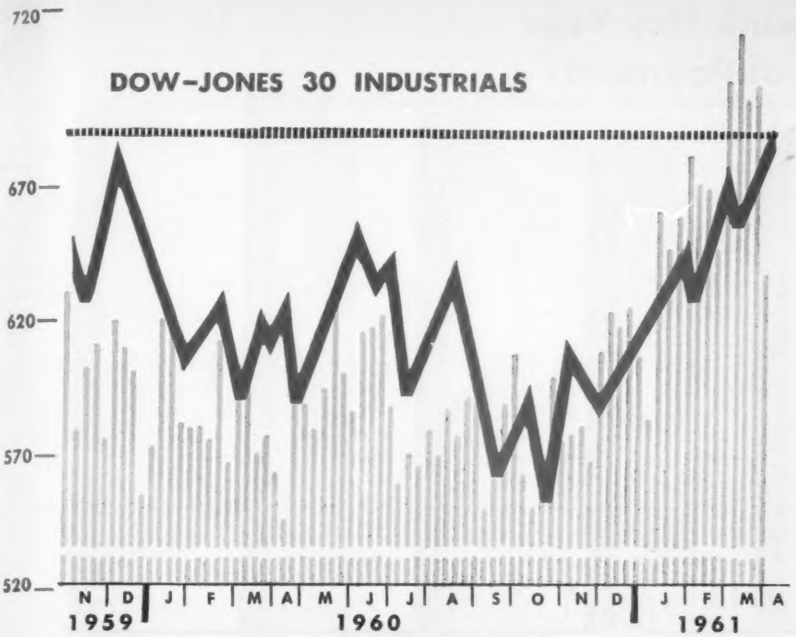
This week's new peak triggered another wave of buying. For some weeks the popular Dow-Jones industrial index had been climbing closer to its old high of 685 in early January, 1960. On Friday of last week, the index closed just below 684. Then, on Monday, the old high was pierced with plenty to spare. The Dow shot up more than 8 points to close at 692 as investors rushed in to buy.

The averages do not tell the whole story. While some stocks are still selling well below their previous highs, most issues are selling at much higher price-earnings multiples than ever before. And the demand for common stocks also is boiling in the over-the-counter market and in the new issues market (page 129).

• **What Pushed It**—There's no doubt that much of the rise since last October's low, when the Dow stood at 565, is justified. Investors were betting that the recession would be mild and short-lived, and looking forward to a rise in earnings and dividends.

The advent of the Kennedy Administration proved an additional stimulant. Investors, who had never really lost faith in equities as the prime investment medium, were motivated by different political-economic views. Some felt bigger spending and new budget deficits would result in a renewed inflationary spiral; others counted on Kennedy's promises of accelerated economic growth.

The upshot was a renewed demand for shares. Institutional investors led the way. But they were quickly followed by individual investors and traders. The Federal Reserve's easier credit policies helped, too, by increasing the amount of funds available for investment. And rates in the money and capital markets had



. . . Prices Break Through

of Buying Continues

declined, unlike the situation early last year, when fixed income obligations were a reasonable alternative to equities because of their extremely attractive yields.

• **Disturbing Features**—Nevertheless, the hugeness of the increase in trading volume and the spectacular steepness of the climb in stock prices has been a surprise. And, while brokers say that demand is not out of control, the rise has been accompanied by some disturbing features.

It's clear, for example, that investors are no longer paying attention to historical price-earnings ratios. At current levels, the Dow-Jones index is selling at more than 21 times earnings, which is much higher than after any previous recession. And demand so far outweighs supply that many issues are selling at 30 to 40 times earnings.

• **In Vogue**—This indicates the speculative nature of the new bull market. For the most part, investors are still neglecting many cyclical issues that normally benefit from a business upturn. Instead, they are betting on relatively unseasoned companies, particularly in scientific and technological fields.

As Moody's Investors Service sees it, investors are getting set for a "race for growth." The results so far have been rewarding, but brokers report that their customers are showing little discrimination in their buying of stocks.

There's a good deal of promotional activity in science stocks. Wall Street, of course, is always susceptible to new investment fashions and enthusiastic promotions, but many veterans say that they have seen nothing like the current fad for science stocks.

• **Funston's Caution**—This is why Keith Funston, president of the New York Stock Exchange, last week warned the public to be wary of uninformed investing and unwise speculation. He cautioned investors against purchasing shares in companies "whose names they can't identify, whose products are unknown to them, and whose prospects are, at best, highly uncertain."

This was not merely lip service. The speculative danger is real, and the Exchange people are concerned. Many investors, including sophisticated institutional men, are putting funds into speculative issues. As one broker puts it, "The market is one of paper, not of value."

At the moment at least, there is not enough paper to go round. And a lot of people bidding for the paper in the market are interested mainly in quick profits.

• **More Semi-Pros**—There are, in fact, three main types of buyer in the market—the professional, the semi-professional, and the amateur. There has been a big increase in both the semi-professionals and the amateurs over the past few years, and they are contributing a major impact on prices.

The semi-professional is a dilettante who has made money during the bull market in the 1950s and feels competent to deal in speculative issues. His emergence is responsible for much of the fever in science stocks.

"We are a prosperous nation," explains one investment adviser, "and our middle-class group has grown fat. It has its cars, its homes, and its furs. Now it is using its discretionary spending for stocks—partly for the inflation hedge it offers, but more for the excitement factor."

Adds another counselor: "It's almost a status symbol to say that you've made a bundle playing around in the stock market."

• **Buying Practices**—The dilettantes can afford to lose far more than the amateurs, who have salted away their investments. But there is also an increasing number of new investors who want to get rich quick. In the past few months, they have been generating activity in speculative issues.

Despite the speculation, values are still available. True, some institutional investors are more leery about stock price levels than they were just a few months back, but most are still buying, picking and choosing carefully and seeking yield as well as earnings. Many individuals are taking the same course.

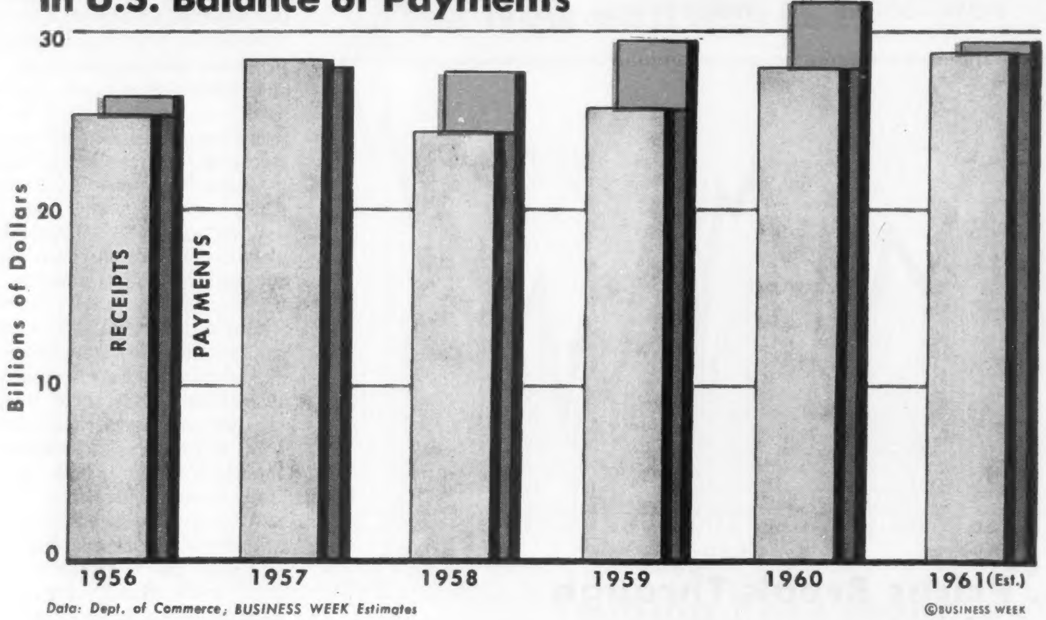
• **Nothing Like '29**—This selectivity, in fact, shows a new degree of sophistication. So, while the mood may have a speculative tinge, it cannot be compared to the frenzied mood preceding the 1929 crash. The trading is not nearly so intense now, despite the 5-million-share days.

There are now 6.5-billion shares listed on the NYSE, compared with 1.1-billion shares 30 years ago. So there would have to be a five-fold increase in turnover—to something like 30-million shares—to match the hectic pace of 1929's trading. Moreover, security speculation is not so rampant, margin requirements are far stiffer, and customers' credit balances show a safe cushion.

• **Stabilizers**—In a sense, today's market has very little in common with the flight from reality that occurred in the late 1920s. Today, the institutions play a much bigger role, and their influence has been a stabilizing one. For the most part, they invest for the long-term and are not engaged in the kind of trading that leads to wide gyrations in price. And because they are making their investments for the long pull, they are not disposed to dump their shares at the first sign of trouble.

This does not mean that the speculative enthusiasm for stocks could not get out of hand. Brokers say that a flight from reality is quite possible—and that this week's breakthrough by the index makes the possibility more real than ever.

DEFICIT Will Shrink This Year in U.S. Balance of Payments



Data: Dept. of Commerce; BUSINESS WEEK Estimates ©BUSINESS WEEK

The Pressure Is Off the Dollar

The ending of last year's massive outflow of short-term capital and the current large trade surplus both point to an improved U. S. payments position for 1961.

The U. S. balance of payments finally seems to have turned around. The way things look today, we should come through 1961 with scarcely any red ink on our international balance sheet, perhaps even with a small surplus. By almost any reckoning there will be no duplication of the large deficits—and large gold losses—we have suffered during the past three years (chart, above). And this means that there should be no repetition of last fall's pressure on the dollar in international money markets.

This is the betting among trade and financial experts in Washington and New York who keep a close watch on our payments position. These experts, of course, are making only tentative estimates, and naturally so. They are working on the basis of statistics that still are incomplete for the first quarter, especially when it comes to the short-term capital account, and they are making a series of favorable assumptions about the level of business activity here and in Europe that may not prove out.

There isn't much disagreement, though, on the two key elements in the situation. The first is the fact that short-term capital movements, which hurt the U. S. position so badly last year, now are turning in our favor. The second is the large trade surplus the U. S. has built up.

I. Present Picture

There no longer seems to be any doubt that confidence in the dollar has been largely restored and that the massive outflow of short-term funds last summer and fall has come to an end. Speculation against the dollar definitely has died down and the heat now is on the British pound. At the same time, the commercial incentives that were pulling short-term money across the Atlantic, especially to London, no longer exist.

Last year the interest rate differential between New York and London made a lot of difference. With rates considerably lower here, and enough confidence in sterling so hedging seemed unnecessary, large amounts went into British Treasury bills. At the same time, European subsidiaries of U. S. corporations borrowed fairly heavily in the New York market for working capital. In addition, businessmen in many parts of the world used New York far more freely than usual to finance their foreign trade operations.

• **Narrower Differential**—Today none of these things is happening on a large scale. Because of the weakness in the British balance of payments, the forward discount on sterling has increased until it now offsets the interest rate advantage of British Treasury bills. Also, the narrower differential between U. S. and foreign rates has made borrowing in New York look like less of a bargain. Meanwhile, European money is returning to the New York stock market.

There's no way of telling yet whether there will be a really sizable return of short-term funds to the U. S. That will depend largely on how rapid an upswing there is in the U. S. economy during the rest of the year, and how attractive the investment opportunities appear. But even a moderate reversal could put the U. S. approximately in balance of its total international transactions. Last year's outflow officially has been estimated at over $2-billion.

• **Trade Surplus**—Underlying the improved payments outlook is the strength of our trade account. If this were deteriorating today, the outlook would not be so rosy.

Currently, our export surplus is running at an annual rate of between $6-billion and $6.5-billion, with exports hitting slightly better than $20-billion a year while imports are down to about $14-billion. And a trade surplus

of this size pretty well covers our net payments on all other transactions except for unusual flows on short-term capital account. Although our trade surplus almost had reached its present level in the fourth quarter of 1960, the outflow of capital was big enough then to more than offset the gain.

• **First-Half Estimates**—You can get the over-all picture of where we stand from tentative estimates made unofficially in Washington this week for the two halves of 1961.

Through June, we should be able to maintain a trade surplus of between $6-billion and $6.5-billion at an annual rate. If you assume no outflow of short-term capital of the kind we experienced last year, U. S. payments for everything except merchandise imports should run about this way (at seasonally adjusted annual rates) during the first half of the year:

• Government aid, net, between $2.5-billion and $3-billion.

• Private capital investment overseas, between $2-billion and $2.5-billion.

• Services and military expenditures, net, about $1-billion.

For the first six months, at an annual rate, that would give somewhere between an approximate balance on total transactions and a surplus of about $1-billion.

II. Second-Half Outlook

For the second half of the year, the estimate involves somewhat more uncertainty both in terms of the trade surplus and short-term capital movements. The other major items are expected to remain about the same.

Assuming a continued business upturn here and a constant high level of business in Europe, the U. S. trade surplus might well decline by year's end to between $4-billion and $4.5-billion at an annual rate. This drop probably would be divided about evenly between exports and imports, with exports falling about $1-billion and imports rising by the same amount.

However, on the same assumptions, there should be a sizable return flow of both long-term and short-term capital to the U. S.—in response to better investment opportunities and inventory rises. It's a safe guess that the capital inflow would be running by year's end at an annual rate of $500-million.

Put these two estimates together and you come out with a payments position for the year that could range from a deficit of almost $1-billion to a surplus of, say, $500-million. But these estimates don't allow for the $575-million prepayment of postwar debts to the U. S. that West Germany announced this week.

Estimates such as these are surrounded by question marks, of course. It is likely but not certain that the European boom will hold up for the rest of the year. The timing and magnitude of the U. S. upturn still are uncertain. There isn't even much hard evidence that the movement of short-term capital has turned around.

However, it is clear that last year's dollar crisis now has become a sterling crisis, and that the U. S. is bound to gain from Britain's weakness, just as the British gained last year from ours. How much we gain will depend a lot on how well London handles the squeeze on sterling and on the durability of the recent agreement among the leading European central banks to support the pound (BW—Apr.8'61, p76).

The British obviously hope this stopgap scheme can be kept in force until the International Monetary Fund can take on the job of offsetting large swings in short-term capital movements.

• **IMF Plan**—Pres. Kennedy and Prime Minister Macmillan have agreed, in fact, to press for an extension of the IMF's operations that would permit it to do this job by making special borrowings from strong creditor nations such as West Germany and granting special loans to deficit nations such as Britain. Approval is expected in September at the annual meeting of the IMF in Vienna.

In pushing for a quick agreement on such a plan, the Kennedy Administration obviously is trying to help London out of its present jam. But U. S. officials also figure that a year or two from now this country might be the beneficiary. They know that this year's improvement in our balance of payments is no guarantee that we won't run into serious trouble again ourselves.

New Man at Ford's Helm

John Dykstra, veteran Ford executive, is chosen president as auto company prepares to make its own electrical equipment.

Ford Motor Co. this week took on a new president—and also was completing negotiations to get into a new kind of business.

The president is John Dykstra, a longtime company executive. The new business is the manufacture of electrical and electronic equipment, which Ford at midweek was planning to purchase from Electric Autolite Co. for a reported $77-million.

In effect, the election of Dykstra is a reversal of a recent Ford accent on youth. There's a good reason. Henry Ford, II, who remains Ford chairman and chief executive officer, brought in a cadre of experienced auto executives when he took charge of the company in 1945. Among them were Ernest R. Breech, L. D. Crusoe, and Delmar S. Harder, who brought in Dykstra. These men ran the company while training a horde of young men as their possible successors.

Youth seemed to have taken over when Crusoe, Harder, and finally Breech retired and Robert S. McNamara, 44, became president last November. But when McNamara left to become Secretary of Defense, there had not been time to expose any of his possible successors in Ford to all the operational responsibilities handled by a president. That's the reason Henry Ford, II once again is turning to a veteran—to give some of the younger Ford men more seasoning.

• **Cost Cutter**—Dykstra, who will be 63 years old Apr. 16, was born in The Netherlands, came to the United States in 1912, and has been working in auto plants since 1914. He was with Hudson and later with Oldsmobile, and was manufacturing manager when Harder hired him for Ford in 1947. He was elected a vice-president in 1950. At Ford, he has been responsible for many of its advanced manufacturing techniques and has been in personal, even detailed, charge of the quality program that has saved Ford millions of dollars in reduced warranty claims.

Another of Dykstra's interests has been in seeing that Ford makes, rather than buys, as many parts as it can. One of the main purposes is to reduce costs. And that's where the Autolite deal is important. Ford's manufacturing cost-reduction drive has been the talk of auto supplier circles for several years. It is the only way, Ford feels, to stand off rising labor costs and keep prices of anything it makes competitive with foreign manufacturers.

• **Modest Investment**—If the Autolite deal goes through, Ford would be in a position to manufacture nearly all of its own electrical equipment—some of which it has been buying from Autolite —at a relatively modest capital investment. And Ford then could pocket the full amount of any savings it made in production costs. If Ford were to enter the electrical equipment component business from scratch and build plants to produce what it has been buying from Autolite, a much greater capital outlay would be required.

LYNN A. TOWNSEND, Colbert's right-hand man, is trying to sweat Chrysler's market share breakeven point down to 7%.

L. L. COLBERT is swinging board control to outside directors, but he can count on enough votes to keep him . . .

Firmly in the Saddle at Chrysler

Next Tuesday will wind up a long year for Chrysler Corp.'s Chmn.-Pres. L. L. Colbert (picture). He has been, since last summer, the central figure in a succession of lawsuits, corporate disappointments, personal attacks, and challenges to his control. Two months ago, he had every reason to expect that Chrysler's annual meeting of stockholders would be noisy, difficult to control, and a sore trial to his patience.

Now it looks as if Tuesday's meeting will be almost routine. There is every reason to expect that it will end with Colbert still in full command, even though there will be some changes in the board of directors. His right-hand man, Administrative Vice-Pres. Lynn A. Townsend (picture), will be given more prominent billing as the company's operating boss.

In all the tumult about Chrysler, there was never any question that Colbert and his board have enough proxy votes to retain command. The only doubt was whether opposing forces could round up enough proxies to make Colbert feel changes were in order.

• **More Outside Voice**—That's academic now, partly because the Securities & Exchange Commission decided Sol A. Dann, management's chief harasser, had not fully complied with its regulations and got a court order barring him from voting any of the proxies that he has solicited. But it's partly because Colbert and his advisers took some of the wind out of the opposition's sails.

Not only Dann but some large and otherwise friendly stockholders showed they took a dim view of a board dominated by men who owe their job to Colbert. So management itself proposed a change in the makeup of the board.

A year ago, Chrysler had 21 directors, of whom 11 were management men and another, Louis Warren, is a member of Chrysler's law firm. William C. Newberg's resignation in the conflict-of-interest fuss last summer cut the number of management-directors by one. Now management proposes a board of 18, of whom only the seven Chrysler executives plus Warren can be considered insiders.

The nine outside directors are standing for reelection on management's slate, and a new nominee is John A. Coleman, a New York stockbroker, trustee of Hanover Bank, and former chairman of the Board of Governors of the New York Stock Exchange.

• **No Real Change**—James Robbins, a Royal Oak (Mich.) manufacturer who is a supplier as well as a stockholder of Chrysler, has been arguing for a change in the bylaws so that no more than 25% of the directors shall be employees. James H. Wilcox, a Detroit attorney, proposes a rule that a majority of directors be outsiders.

Both proposals may be introduced Tuesday, but Chrysler's present board opposes such restrictions. In any event, giving outside members a majority on the board won't in the least change Colbert's situation.

Besides the inside members, Colbert can count three of his strongest backers among the outside directors: W. Alton Jones, chairman of the executive committee of Cities Service Co.; Juan T. Trippe, president of Pan American World Airways, Inc., and Joseph M. Dodge, chairman of the Detroit Bank & Trust Co. Whenever he needs more votes, they would probably come from two or three other directors who have close associations with Chrysler.

• **Dann's Swan Song**—The associations that guarantee Colbert's mastery of th

board are what Dann has been furiously attacking—at the annual meeting last year, in statements to stockholders and to the press, in lawsuits, and in proposals in the proxy statement.

Dann says he has made his final attempt to unseat Chrysler management. He realizes he can't get rid of Colbert without a complete change in the board—not just a shift of the majority from inside to outside directors. He may show up at the meeting and make an emotional speech. But after that, management's proxies will be cast for management's slate.

• **Court Calendar**—This, however, will still leave unsettled the suits, and the even more vital matter of how Chrysler can get back into what used to be the Big Three of the auto world. The first matter will take much of Chrysler executives' attention for some time to come.

Newberg is suing Chrysler, and Colbert personally, for millions of dollars; Jack W. Minor, also forced out in alleged conflict of interest, is suing for a lesser amount; Chrysler is suing Newberg and Dann, and the Justice Dept. last week filed an antitrust suit charging Chrysler with scaring dealers into dropping Studebaker Lark franchises with the threat of not letting them sell the Valiant.

• **Market Position**—One of Colbert's severest disappointments over the past year has been the decline in Chrysler's market position. Last year began with high hopes and a rush of buying that had been pent up by the steel strike.

For the full year, Chrysler sold 14% of all cars; it started at above 15% and ended below 12%. In 1960, the company netted $32-million, the first profit since its $120-million in 1957; per-share earnings were $3.61, compared with $13.75 in 1957. In the first quarter of this year, Chrysler production was down 60%, and obviously the company is running in the red.

A few years ago, Colbert was talking confidently of a goal of 20% of the market. You don't hear that kind of talk any more. Townsend, whose training was in accountancy, is striving to sweat the corporation down to a new breakeven point, around 7% of the market. In 1959, Chrysler's share was nearly 13%, yet the company lost money. Still, Chrysler can be expected to get a bigger market share than 7%.

Unquestionably the suits and countersuits, the "loyalty investigation" at Chrysler, and the decision-making vacuum while Colbert was trying to pick up the pieces after Newberg's departure, affected morale of management and the dealers—and hurt the sale of Chrysler cars. The question after next week's meeting will be: Can Colbert's management, reaffirmed and unhampered, restore the company's market and one-time great profits?

New Probe of Fed Coming

Rep. Wright Patman, chairman of the Joint Economic Committee, will hold a hearing focusing on the operations of the Federal Reserve System's Open Market Committee.

Rep. Wright Patman (D-Tex.), the most persistent Congressional critic of the way the Federal Reserve System manages the country's money supply, intends to lead an investigation of the Fed's Open Market Committee, which handles the system's purchase and sale of government securities.

He plans to question the entire 12-man committee, or at least its key members, along with Robert G. Rouse, vice-president of the New York Federal Reserve bank and manager of the Fed's Open Market Account.

No date has been set, but Patman hopes to hold the hearing in a few weeks before the Joint Economic Committee of Congress, which he heads this year.

• **New Front**—Patman's decision to probe open market operations extends and broadens his long feud with the Fed. He has tangled frequently with William McC. Martin, Jr., chairman of both the Federal Reserve Board of Governors and the Open Market Committee, when Martin appeared before Congressional committees. Now he is seeking to probe the workings of the Open Market Committee itself.

Patman's general line is that the Federal Reserve under Martin has held back the supply of money relative to the expansion of the economy, thus hampering growth. Patman favors a policy of easier credit.

• **Market Function**—Patman has long been interested in the operations of the Open Market Committee, which is the Fed's main policymaking body. While regional Fed banks have the initiative in changing discount rates and the Washington board has responsibility for changes in reserve requirements, any shifts are normally discussed at the regular meetings of the Open Market Committee, which convenes every three weeks. In addition, the group lays down the broad policy under which Rouse, operating from the New York trading desk, buys Treasury securities when the Fed wants to ease credit and sells when the Fed decides to tighten.

The committee consists of Martin, the other six members of the Board of Governors, and the presidents of five district Federal Reserve banks. Patman is particularly interested in the role the district bank presidents may play in fixing monetary policy. Because commercial banks own the stock of the district Reserve banks, he has long contended that commercial banks are in a position to influence policy for their own gain. The only district bank president who serves permanently on the committee is Alfred Hayes of New York. Currently, the presidents of the Chicago, Dallas, San Francisco, and Richmond banks are also on the committee.

• **Annual Report**—Patman's investigation will probably center on the Fed's shift from "bills only" to a more flexible policy. He wants to find out if Martin's influence delayed the change in policy, and just how—and when—the commitee finally decided to move.

In the past, Patman has complained that the Fed's annual reports have come out too late and revealed too little. The 1960 report was sent to Congress on Mar. 9 this year. Patman contends that annual reports are published later than necessary, thus depriving Congress of information about what the Fed is up to.

He is likely to ask Martin and individual members of the committee why the report cannot be prepared more speedily.

Patman is particularly interested in a section of the report that sets forth the policy decisions of the Open Market Committee. Except for this once-a-year statement, the Federal Reserve Board and the Open Market Committee generally maintain a rigid silence as to current operations. An exception was last February when the Fed publicly announced it would begin buying long-term securities in a move to influence long-term rates on the downside.

• **Case in Point**—A typical situation is revealed in the 1960 annual report's description of an Open Market Committee meeting last Oct. 25 when it was "suggested" that conditions might arise "when it would be found advisable to conduct open market transactions not only in bills but also in other Treasury securities." There was no announcement at the time, though a short time later, the committee did crack the previous "bills only" policy by purchasing securities maturing in 15 months. This was in line with traditional policy—to let Open Market Committee decisions become apparent in market operations only, without public comment.

Patman believes this tradition gives market insiders an advantage over other persons, and he will likely ask the committee why it should not operate more in the open.

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In Business

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GM Indicted on Monopoly Charge In Railroad Locomotive Business

A federal grand jury in New York this week indicted General Motors Corp. on charges of monopolizing the railroad locomotive business in the U. S. It was the first action by any of the grand juries that have been looking into aspects of GM's activities since late 1959.

The New York criminal complaint, filed under the Sherman Act, charges that GM has used its size, sales ability, and superior production facilities to squeeze out locomotive competitors. GM entered the locomotive business after it acquired Electro-Motive Co., and a maker of diesel engines in 1930. By 1957, its share of the market had reached 88.7%; last year it was 84.1%, according to the government.

The indictment charges that GM uses its position as the largest shipper of freight over the rails to induce railroads to buy locomotives from its Electro-Motive Div. The antitrusters say it did this by offering to route its freight over the roads that bought its locomotives, and took freight business away from carriers that bought locomotives from competitors.

In a specific case, the indictment charges that a GM official told the Gulf, Mobile & Ohio RR that GM was rerouting its traffic to other lines that had bought more GM locomotives. Similar discussion, it is charged, took place with the Atlantic Coast Line, the New York Central, the Pennsylvania, and other roads.

At midweek, GM Chmn. Frederic G. Donner said the company was guilty of none of the monopolistic practices charged in the indictment.

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Electric Equipment Makers Hit By Six New Antitrust Damage Suits

Legal activity was humming this week in the aftermath of the electric equipment antitrust cases that have already brought fines for 29 manufacturers—and jail sentences for some executives—on charges of price collusion and bid-rigging on products covering nearly $2-billion in annual sales.

• **The Justice Dept.** filed six more damage suits in Philadelphia federal court against 11 of the sentenced companies. Unlike an earlier government suit covering circuit breakers (BW—Mar.18'61,p36), this one set no dollar value for the damages. Atty. Gen. Robert F. Kennedy said only that the claims would run "into millions." **The government must present a figure sometime before the trial starts—perhaps two years from now.**

• **The State of California**—joined by 1,257 municipalities represented by the National Institute of Municipal Law Officers—argued before the Philadelphia court for the right to see the documents and the list of witnesses subpoenaed by the grand juries that handed down the original indictments. **The petitioners claim they need the documents to arrive at a dollar figure for their damage suits.** Judge J. Cullen Ganey postponed decision on the plea, which was opposed by the defendants and by at least one corporation that had been investigated but was not named in the indictments.

• **The Interior Dept.** said it would require companies bidding for contracts on materials, supplies, and equipment **to certify that their bids were not collusive.** Violators would be subject to fines or jail under the False Claims Act.

• • •

Defense Dept. to Swap Surplus Crops For Oil That It Needs Abroad

Surplus farm crops already in government bins will be bartered for foreign oil, under a new Defense Dept. plan to cut military costs and to lessen their impact on the balance of payments (page 32).

The plan's first major test will come next month, when bidders on a Navy order for $11-million worth of heavy fuel oil must be willing to take farm surplus in lieu of cash. **Oil is the Defense Dept.'s biggest single overseas expense.**

Here's how the barter system will work:

• Before bidding, the oil companies must arrange with an international commodity trader to handle the surplus crop and must make a contract with the Commodity Credit Corp. for the commodity they want. The list of available crops includes wheat, corn, oats, rye, barley, cotton, tobacco, and dried milk.

• The oil companies then bid in dollar amounts, including brokerage fees for disposing of the commodity.

• The Defense Dept. will pay CCC in dollars.

• CCC will turn over to the trader a commensurate amount of the commodity, based on world prices.

• The trader will sell the commodity abroad and pay the oil company in cash, minus his brokerage fee.

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Submarine Powered by Fuel Cells Planned by Navy Within Two Years

Within two years, the Navy plans to convert a conventional diesel-fueled submarine to operate experimentally on fuel cells. A land-based prototype will be built next year in this first massive-scale application of the generation of electricity directly from a chemical reaction.

The Navy wants fuel-cell subs to augment but not replace its large nuclear-powered fleet. It wants small special-purpose attack craft, for which nuclear power plants would be too large and too costly. The fuel-cell sub would have less cruising range than the atomic type, but would be able to stay submerged for several weeks, compared to the two- or three-day limit of the conventional sub. It would be almost entirely silent.

If the experimental fuel-cell sub pans out, the Navy will build entirely new craft to utilize the principle rather than convert existing vessels. It is already using fuel cells for such small-scale applications as buoy lights.

WASHINGTON OUTLOOK

WASHINGTON
BUREAU
APR. 15, 1961

A BUSINESS WEEK
SERVICE

The key to Washington policymaking from here on is Congressional elections of 1962.

Election strategy begins to dominate issues and events to a degree that is unusual even in this town, where politics is both the biggest business and the dominant pastime.

The fate of issues now before Congress (page 27) will be decided to a great extent by the way lawmakers read underlying political trends. As politicians, they are chiefly interested in how much the voters' mood is likely to change in the next 18 months—and in what direction.

Just as important—Pres. Kennedy will be increasingly swayed by election prospects. He has asked Congress for legislation making good on most of his election promises. Now he will look ahead.

Leaders of both parties are worrying over the '62 election outcome.

GOP chiefs believe that if they don't gain 20 to 40 seats in the House their chance of winning the White House in 1964 will be badly hurt.

Democrats warn the party faithful that Kennedy can't afford to lose any more strength in the House, where the conservative coalition can muster roughly half the vote now on many issues.

Kennedy has tried hard to create a middle-of-the-road posture for himself and the New Frontier—different from former Pres. Eisenhower's, but far from the all-out liberal program many Democrats favor.

This has gone over with voters in the judgment of Democrats and Republicans alike. But Kennedy's success as a political strategist creates a worry among some of his key economic advisers.

Mostly they view his programs as overly cautious: not big enough on the spending side, too much devoted to holding deficits down to a bare minimum.

With recovery from the recession well under way, they'd like to see some sign that Kennedy is as concerned as they are about launching the country on a growth trend in excess of anything in recent years.

They see a 3.5% growth rate and 4% unemployment as essentials for a successful Administration, for example.

But Kennedy is not giving much encouragement to the idea of trying for such goals with bold new programs backed by the full power of the Presidency.

Kennedy will have the last word—and from all the present signs, it will be based more on his political instincts than on their economic projections.

At a press conference this week Kennedy implied that he would like to do more, but ended by citing the complexities involved, such as guarding against inflation and the outflow of gold.

His advisers have not given up, however. They will keep on trying to convince him that more is needed by way of economic leadership.

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A federally sponsored code of ethics for businessmen will be sought by the Administration. Business groups will be asked to adopt it.

WASHINGTON BUREAU
APR. 15, 1961

A conference on business morals will be the first step. Commerce Secy. Luther H. Hodges will invite clergymen, educators, businessmen, and labor leaders to Washington, probably next month, to draw up the rules of behavior. Prof. George Albert Smith, Jr., of the Graduate School of Business Administration at Harvard will be chairman.

Hodges' move is an outgrowth of the electrical price-fixing cases.

He's backed by Atty. Gen. Robert F. Kennedy, who thinks general business organizations, trade associations, local chambers of commerce, and the like should join the crusade.

The Administration wants to make the point that price violations are morally, as well as legally, wrong.

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The hunt for a GOP chairman is settling down to two men. Ray Bliss, Ohio state chairman and Rep. William E. Miller of upstate New York are pulling away from the field. A successor for Chmn. Thruston B. Morton will be picked about June 1, when Morton quits to run for reelection to the Senate from Kentucky.

Bliss is backed by Midwestern state chairmen who believe the job is primarily one for a professional working quietly behind the scenes. Bliss is retiring by nature, does not like TV appearances, and is inclined to freeze up around reporters. But he carried Ohio for Nixon in 1960, doing particularly well in the cities.

In the past Bliss has shied away from the top party job, but this time he is being urged to take it even if this means someone else would make the public appearances.

Miller is backed by the Congressional wing of the party, which likes the way he functioned last year as chairman of the House Republican Campaign Committee. He is a facile speaker and would not need any special public relations assistance.

Miller is a conservative but has support from all GOP elements. Sen. Barry Goldwater likes him, but so do Richard M. Nixon and Gov. Nelson Rockefeller of New York. Miller and Rockefeller have recently patched up differences that developed when Miller came out early and strong for Nixon as the party's nominee last year.

Neither Miller nor Bliss is putting up an open fight for the job.

Even their backers are operating quietly for fear of stirring up a head-on collision that would divide the party.

If a deadlock develops, Arthur E. Summerfield, Eisenhower's Postmaster General, or Fred A. Seaton, former Secretary of the Interior, could emerge with the job. Charles P. Taft of Ohio, brother of the late Sen. Robert A. Taft, is mentioned as a possible dark-horse choice.

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Kennedy is pulling back from a clash on regulatory agencies.

The recommendations he is sending to Congress are mild compared to the early goals of James M. Landis, who was called into the White House to try and reorganize the agencies. Congressional leaders warned him that Landis' proposals would stir up a major row.

Kennedy's chief suggestion is the old standby: Get better people.

SEMIRETIRED, Mr. and Mrs. Jack Cunningham enjoy view from model of their new Palm City (Calif.) home.

Built to Older People's Taste

For several years now, manufacturers have been trying, ever so cautiously, to determine whether older people—60 and over—make up a market for consumer goods that's distinctive enough to be treated separately (BW—Feb.13-'60,p72).

There is no question of its size and growth—23-million people 60 years or older today, 29-million by 1970, and 35-million by 1980. Those are big figures, but do they add up to a market? Do elderly people, as a buying group, want or need special attention?

More and more, evidence points to the affirmative. At least that is true in the vital field of housing—which in itself breeds demand for a host of other products.

Housing for the elderly is almost certain to get more attention because of projects by the new Administration. They are high on the list of things that Robert C. Weaver, administrator of the Federal Housing & Home Finance Agency, has in mind. Just this week he named Sidney Spector, staff director of the Senate subcommittee on problems of the aged and aging, as coordinator of several programs the agency has under way. These include special programs for public housing for the elderly, FHA mortgage insurance to support rental housing, and direct loans to nonprofit groups for rental housing designed for the elderly.

Up to recently, Florida builders seemed to be the only group benefiting from the aging population, with all their state's attractions of weather and development land for life in retirement.

• **If Florida Can Do It**—Now the no-

CUNNINGHAMS with sales manager Winfield S. Stipp inspect interior of model home. They chose house with two bedrooms, two baths. While formally retired, Cunningham is still active in three companies.

SWIMMING POOL belongs to the community, Stipp explains. Palm City also has center for indoor recreation, an 18-hole golf course, health center headed by a geriatrician, and its own shopping center.

tion is catching on that not all elderly people want to retire to Florida.

This spring, two California developers launched a city-size, $30-million development on a 560-acre site 16 miles southeast of Palm Springs, Calif. (pictures, page 47). Called Palm City, it will include 1,800 homes and 400 cooperative apartments surrounding an 18-hole golf course, a community shopping center, a medical-dental center (headed by a geriatrician), extensive recreational facilities including a swimming pool, a restaurant, a coffee shop, and a motel.

Palm City is frankly patterned after a similar, even bigger retirement city being constructed by Del E. Webb, real estate developer and co-owner of the New York Yankees, located 12 miles outside Phoenix, Ariz. This development, called Sun City, was started in 1960 and already has sold 1,472 single-family units and 250 co-op apartments. Now under way are the first stages of 1,971 more units and 400 co-ops.

• **Up North, Too**—What's more, the Douglas Fir Plywood Assn. is convinced, from its current experience in pushing the idea of retirement housing among builders, that a lot of northern areas lacking the sunny climate of Arizona, California, or Florida can tap this market. One builder, Carl T. Mitnick, is building three models in the Philadelphia area, for instance, and hopes to sell from 300 to 400 homes.

The association obviously is promoting use of its products. By providing a House of Freedom model, it figures it can get a goodly share of business in the estimated 225,000 new retirement units a year that are considered the annual potential.

• **What Do They Want**—There is considerable controversy at the moment, however, on just what kind of housing the elderly population wants. The plywood group believes many older people want homes that are smaller, easier to maintain, but not necessarily away from their life-time environs. In a survey of the market, the association found only 20% of elderly people wanted to move to Florida, Arizona, or California for retirement—but more than half thought their present homes weren't suitable for retirement. Undoubtedly, there are many elderly people who don't want to spend all their retirement in a resort-type atmosphere.

But Palm City and Sun City, on the other hand, are operating on the theory that there is a profitable market for specially designed, segregated-by-age developments. As Palm City developers Nels G. Severin, former president of the National Home Builders Assn., and H. Marshall Secrest put it: "Palm City is designed to appeal to

those older people who want to get away from the crowded city traffic, hot-rodders, and neurotic young marrieds."

• **Financing**—With this in mind, Palm City limits sales to couples in which one is 50 years or older (the average age in Sun City is 62.1 years). Prices run from $9,750 for an apartment up to $17,250 for homes (with an extra $2,500 for a site fronting on the golf course). Prices at Webb's Sun City start at $8,500 for apartments and $9,150 for homes.

Both provide FHA financing with a minimum 3% downpayment and a 30-year mortgage at 5.5% interest.

Neither Webb nor the Palm City developers push special features—such as extra-wide doors and halls, ground-level entrances without steps, higher than usual electrical outlets (no stooping) and lower switches (no stretching), and one-piece glass fiber shower stalls with seats. Such features are built into all the houses, but without any promotion; the conveniences are there to be quietly noticed by prospective buyers. Actually, the Douglas Fir people have data showing only 5% of those 60 or over are infirm.

Their figures also show that the retirement market is anything but destitute. The median net worth of families over 65 is $8,400, and many can pay a substantial downpayment on a small home. At Palm City, about 50% of the customers so far indicate they want to pay cash, and practically none asks for the minimum downpayment terms.

• **Measures of Success**—How successful are these specially designed retirement cities? Latest figures at Palm City show 361 sales of homes, according to developer Severin, and reservations for about 40 apartments. First occupancy will be around May 15. Del Webb's project sold out its first block of more than 1,600 units and, since Jan. 1, has sold another 246 in the second division.

These figures, plus surveys of Sun City residents, seem to support the idea that the retirement housing market calls for special treatment. About a third of the Sun City residents interviewed by the Palm City planners said that living with people of their own age was the single factor that had the most influence on their decision to buy. Another 21% said it was the second most influential reason.

The interviews turned up comments like this: "We moved here primarily to get away from kids and dogs and to live a quiet undisturbed life." Or another: "We have the same age group here; it is a community of people with the same interests and thinking."

Webb, for one, isn't resting with this one project. He plans another in Stockdale, Calif., another near Tampa, Fla., and still more in other parts of the country. END

SILICONE NEWS from Dow Corning

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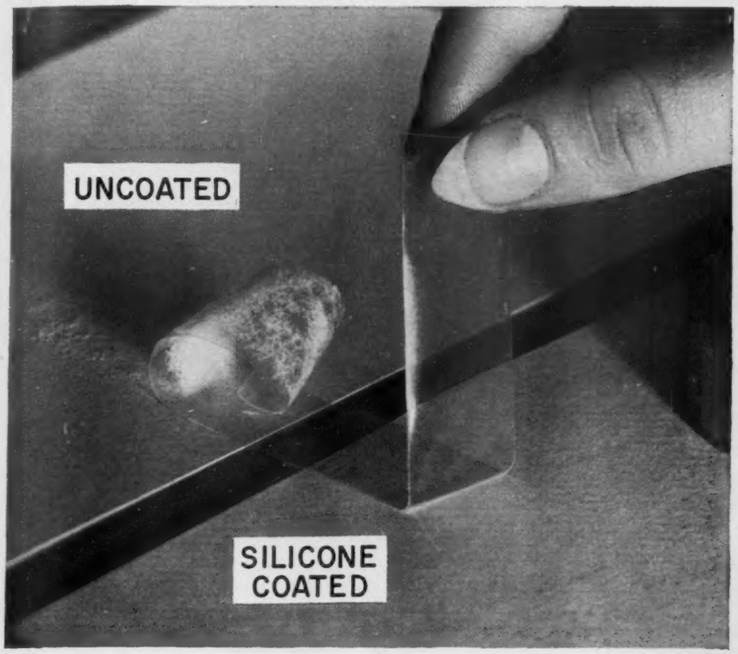

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Drug Prices . . .

. . . start to come down for California's welfare patients. Meanwhile, druggist group faces trial on price conspiracy.

California and Florida have received refund checks from the Merck, Sharp & Dohme Div. of Merck & Co., Inc., as 10% reimbursement on Merck prescription drugs bought by people under public welfare care. California's check covering January came to $4,485.20; Florida's to more than $3,000.

Merck made the refund voluntarily, in keeping with its proposal as far back as 1958 that drug manufacturers extend such a plan to all states where bookkeeping methods permit accurate measurement of drug costs for people on relief. Only the two states have availed themselves of the offer from Merck so far, though Illinois is expected to after adopting machine tabulating of its welfare charges as in the other two states.

Rhode Island also tabulates its drug costs under welfare by this method, and it has accepted an offer of 10% refunds from Squibb Div. of Olin Mathieson Chemical Corp. that is not retroactive. Robinson Laboratory, Inc., in San Francisco also offers 11% refunds, also not retroactive.

• **Big Savings**—Gov. Edmund G. Brown of California, who accepted Merck's refund on January purchases, says a number of drug makers (BW—Dec.10'60,p140) have indicated that they may join in the refund plan. If they do, says Brown, the saving to California could run as high at $1,2-million a year—the state's drug bill for welfare recipients is $12-million a year.

Florida is another state with a high percentage of elderly, blind, and otherwise handicapped people who qualify for drugs under public welfare, and its 10% refund could also mean a large saving to the state.

Merck says its move is an attempt to equalize the costs of prescription drugs to the states and to large medical institutions. State hospitals have for years been granted discounts on their bulk purchases of ethical drugs, Merck points out, so why shouldn't the same price cut be granted to the state for its out-patients? Only the mechanics of carrying out the plan prevented its earlier adoption, the company says.

• **Getting Ready**—In anticipation of similar offers from other companies, California's Social Welfare Dept. is planning by July 1 to have all drug stores on notice of a two-digit code

number for many of the big manufacturers. When a pharmacist fills a prescription with a company's drug, he is to write the assigned code number on the prescription form. This will expedite the figuring of monthly totals of payments for each company.

California estimates that about 200,000 prescriptions per month are filled for welfare patients.

• **Druggists Sued**—Meanwhile, the retail drug business was under fire in California. The Northern California Pharmaceutical Assn., indicted last December by a federal grand jury for criminal conspiracy to fix drug prices, has been granted a delay of trial from Apr. 17 to May 22. It had sought a stay until Oct. 23.

In granting the shorter delay, Judge Lloyd H. Burke noted that the public is deeply involved in the outcome of the trial.

"If the government's charges are true," he said, "every person who has paid for a prescription drug in the state of California during the period covered by the case has a treble-damage antitrust action."

• **The Charges**—According to the indictment, since 1956, "the 1,500-member association and Donald K. Hedgpeth, chairman of its pricing committee, have conspired to set prescription drug prices." This was done at the retail level, the government charges, through adherence to a price list formulated and annually revised by Hedgpeth, a San Francisco pharmacist.

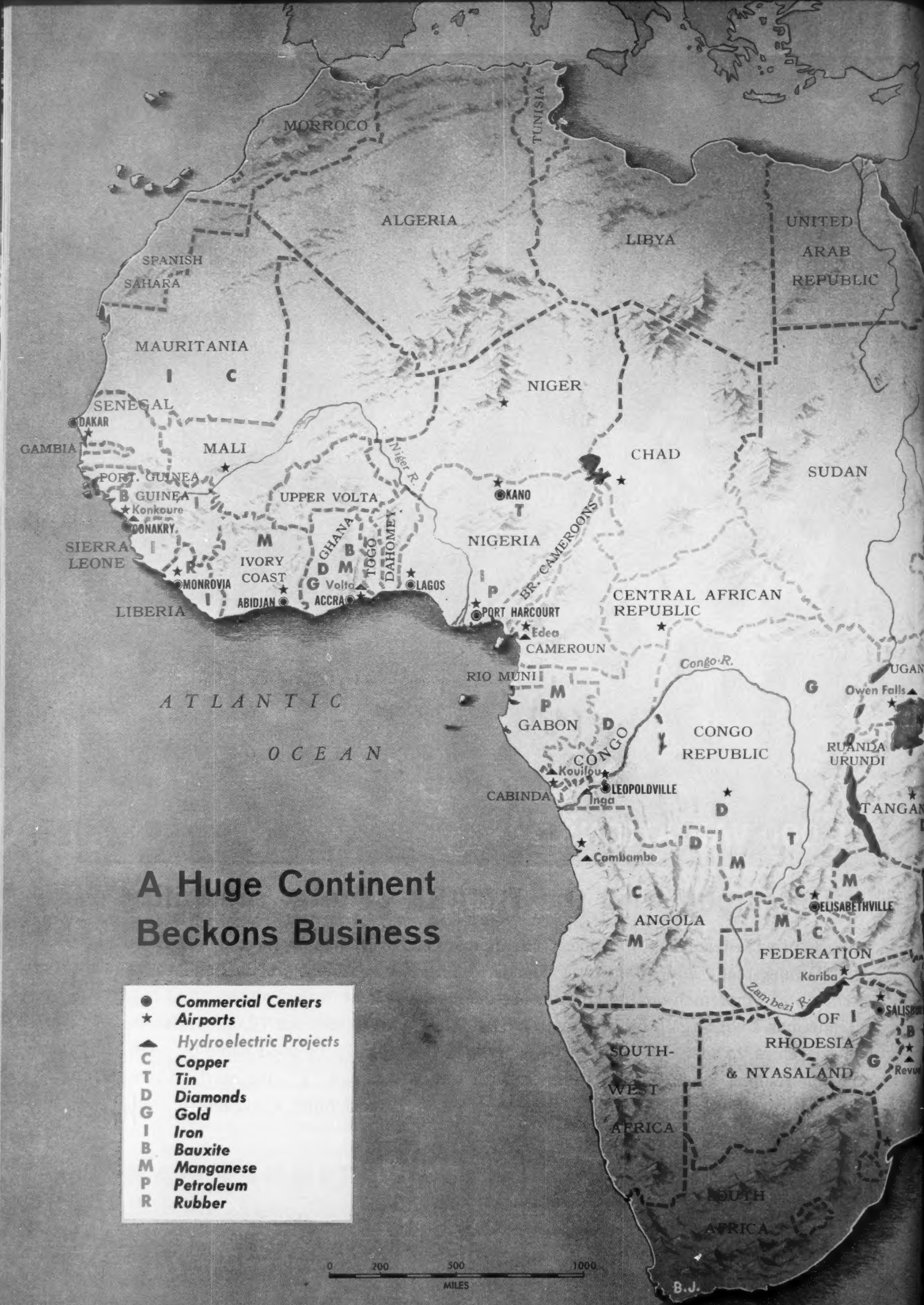
If the government can prove its case, anyone who had bought a prescription drug in the state during the affected period can presumably file a civil suit for triple damages, plus court and attorney costs.

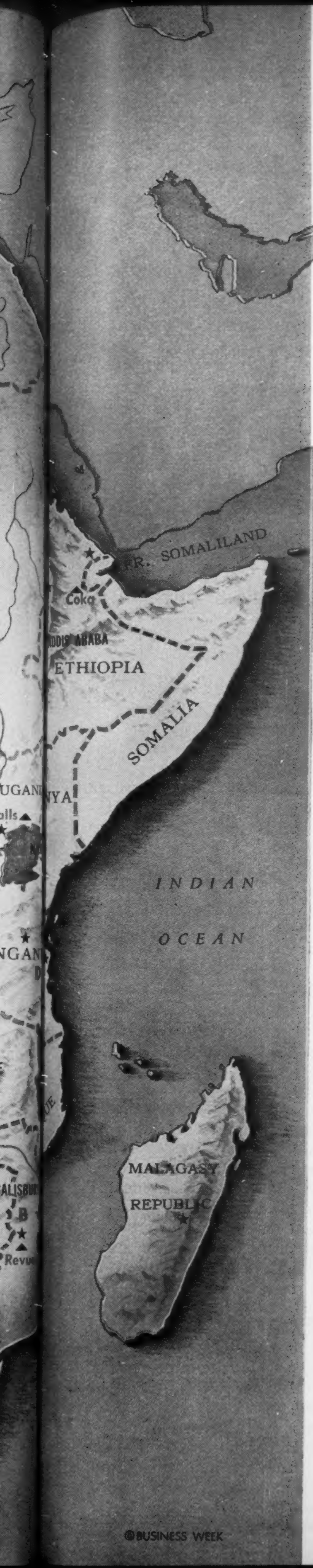
NCPA's parent, the American Pharmaceutical Assn., concedes this possibility. "But," says Arthur B. Hanson, general counsel for APA and also an attorney for NCPA, "the association is going to be real hard to sue on treble damages, because it doesn't own any drug stores."

California has been stirrred up over drug prices, partly through a proposal that the state set up its own dispensaries to reduce the cost of prescription drugs and partly through a legislative investigation by Assemblyman Philip Burton's Social Welfare Committee. The ethical drug makers have consistently taken the stand that they have no control over the pharmacist's markup—"what he charges the customer is entirely his own affair."

Burton, who has been making the cost of prescription drugs in California a political issue, says he isn't convinced that such is the case, however. And a 10% rebate by the ethical producers isn't going to deflect his investigation one bit. END

A Huge Continent Beckons Business





SPECIAL REPORT

Africa's New Nations Tempt U.S. Companies Looking for Growth

● New areas of business that once were mainly colonial preserves are beginning to open up.

● It's a big market—170-million people. And it has substantial resources, particularly raw materials.

● It has big risks, too—because of anti-Western attitudes, some leaning toward Communism and political unrest.

For U. S. business, the new nations of tropical Africa are an economic torment.

They offer extraordinary opportunities, now that their political ties with Europe are being cut. They also involve extraordinary dangers, with nationalism coursing through them wildly and sometimes destructively.

From San Francisco to New York, U. S. corporations on one hand see new markets, new supply sources, big profits. On the other, they see disorder, anti-Western feelings, and possible expropriation.

With some anguish, Americans are beginning to take the African gamble. For the most part, they are dipping rather than plunging with investments in small, almost tentative ventures that can be expanded if conditions improve —or written off easily if they get worse.

Even the few U. S. spectaculars—such as the aluminum projects of the Kaiser interests in Ghana, or of Olin Mathieson Chemical Corp. in Guinea —are usually consortium affairs with the risk spread among several corporations including, in some cases, European companies.

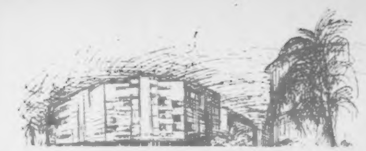
A handful of companies has had a stake for some time in tropical Africa, such as Firestone Tire & Rubber Co. with its rubber plantations in Liberia and American Metal Climax, Inc., with its copper interests in Northern Rhodesia. These have been the exceptions.

• **Tantalizing**—Skittishness has been—and still is—the rule. Along with it, however, there is a growing curiosity among those who have not dipped their toes. U. S. businessmen are reading, talking, and traveling Africa as never before. And many are tantalized.

"Once you investigate Africa, you can't get it out of your mind," says one U. S. executive. "Even if your reconnaissance amounted to only a few dainty sniffs. You remember the risks —but you can't forget the potential."

• **Two Voices**—Spurring U. S. business interest in tropical Africa are two voices.

One comes from the African leaders. "We in Africa are doing everything to



TROPICAL AFRICA

make American businessmen Africa-conscious," a Nigerian official says. "We advertise, we have them visit us, we visit them—and we whet their appetites with handsome financial inducements."

The other voice is that of the U.S. government. Washington is encouraging private investment in Africa, both to reinforce government efforts against Communist inroads and to promote African development along Western lines.

What will shape the future role of U.S. business in Africa, however, are the fortunes of American companies that have chosen to pioneer there.

I. U.S. Weathervanes

The pioneers represent a range of U.S. enterprise, from banking to oil exploration and from manufacturing to mining. An American in tropical Africa comes across many familiar names—Mobil, Bethlehem, Singer, Chase Manhattan, Pfizer, and so forth. Mining and oil interests predominate.

Few American corporations are heavily committed in tropical Africa, the vast region south of the Sahara Desert and north of South Africa. Total direct U.S. investment has a book value less than $250-million. As pioneers, however, all U.S. companies in the region play a role much more significant than their financial stake would indicate.

• **The Big Stakes**—They are a weathervane for companies less bold and still back home. If the African business climate lets these pioneers survive and prosper, then there may be a real wave of U.S. investment.

At the same time, they are establishing a U.S. business "presence" in tropical Africa that is getting Africans accustomed to Americans after decades of dealing with British, French, Belgians, and other Europeans.

That's all for the good. But it's not why these corporations have gone to Africa. They are there for profit—now, or in the near future. Here's how some of their executives feel:

Pepsi-Cola Co.: "You can't ignore 170-million mouths. With our product, you can reach right into the bush. We're not selling electronic computers. We're selling lots of Pepsi-Cola—and we intend to sell lots more."

Kaiser Aluminum & Chemical Corp.: "When the Volta project gets on its feet, we'll have a good cheap source of

Ten Top Companies

These giants, largely European-controlled, are the leaders in tropical Africa in mining, merchandising, or investments, according to the best estimates available.

UNILEVER, LTD.: British-Dutch parent of United Africa Co., Ltd. UAC's business volume is largest in tropical Africa ($830-million last year). Primarily a trading network, UAC also has subsidiaries that manufacture, process, assemble.

UNION MINIERE DU HAUT-KATANGA: Belgian mining giant in the Congo. Virtually unscathed so far in Congolese chaos, now produces more copper (about 300,000 tons yearly) than ever. Union Miniere has important interests outside copper, cobalt, zinc and other production in the Congo. These range from holdings in Anglo American Corp.'s coal mine in Rhodesias to Belgian-American Bank & Trust Co. of New York.

ANGLO AMERICAN CORP. OF SOUTH AFRICA, LTD.: Major interests in tropical Africa. Controls rich mines on Northern Rhodesia's Copperbelt, Rhodesia's only coal mine, and—through De Beers Consolidated Mines, Ltd.—owns 50% of Williamson diamond mine in Tanganyika. Under Harry F. Oppenheimer, AAC has been leader in providing medical care, education, and decent housing for labor forces.

COMPAGNIE FRANCAISE DE L'AFRIQUE OCCIDENTALE: Most important French trading company in tropical Africa. Its subsidiaries buy and sell in most of former French Africa, plus the Congo, Ruanda-Urundi, Ghana, Nigeria, Liberia, Sierra Leone, and Gambia. It has assembly plants, but engages in no manufacturing. Turnover in 1960 was up 9%—to $194-million. Plans expansion.

SOCIETE COMMERCIALE DE L'OUEST AFRICAIN: Second-largest French trading company. Agent for industrial equipment, has automobile assembly plants. Subsidiaries include chain of dime-store type outlets. With two affiliated companies, SCOA's turnover last year was $177.8-million. Also expanding.

PECHINEY and UGINE: France's only two aluminum producers. Together these companies participate in two African ventures. One is FRIA project in Guinea in which they have 26.5% interest (Olin Mathieson has 48.5% and British, Swiss, and West German companies have remainder). Other venture is ALUCAM, aluminum smelting project in Cameroun, in which Pechiney and Ugine together have 89% interest; partner is Belgium's Syndicat Belge de l'Aluminum.

ROYAL DUTCH/SHELL and BRITISH PETROLEUM, LTD.: Market throughout tropical Africa. After jointly spending more than $200-million in Nigeria over past 23 years, these companies are now exporting Nigerian oil to Europe, plan $33.6-million refinery at Port Harcourt in Eastern Nigeria.

SOCIETE DES PETROLES D'AFRIQUE EQUATORIALE: French government-controlled oil company, with seven small oil fields in Gabon and one in former French Congo. Company engages with Socony Mobil and with Shell in exploration ventures.

aluminum in Ghana. By that time, we expect demand for it to be high—especially in Europe."

Chas. Pfizer & Co., Inc.: "There are 40-million people in Nigeria and many of them are sick. We've been selling about $800,000 worth of pharmaceuticals a year. Now, we've put about $100,000 into a packaging plant in Eastern Nigeria, our first plant in Africa. We'll make money on it, and it's good public relations."

An American bank officer: "The African economies are quickening their transition from production for subsistence to production for exchange. That means business for us. Another thing—foreign companies will continue to come into Africa. We'll be here to meet them. In the meantime, I shouldn't be surprised if our efficiency wins some business from banks established in the colonial days."

• **No Illusions**—Don't get the wrong impression. None of these companies—nor the scores of other U.S. outfits that do business in tropical Africa—is forgetting the unpleasant facts of life, which obtrude themselves on every visitor and shatter any delusions about Africa's wealth and stability.

Tropical Africa is not rich. Although its natural resources may have great potential, they are quite undeveloped. Poverty is everywhere, annual per capita income averaging under $100 in the region. There is no boom in tropical Africa, although building boomlets in some cities give travelers that impression.

Despite the region's population of 170-million, the actual market for most manufacturers is a small one. Only 10% of the population lives in the market economy—which still is dominated by Europeans.

On the other hand, Africans in the bush are making more forays into the market economy. It's possible in remote villages to find Arrow shirts, Singer sewing machines, and bicycles. These usually are brought there from a company store by a native after his hitch underground with one of the big mines. Furthermore, more Africans are moving into cities.

• **Soviet Beachheads**—Nor is tropical Africa immune from the cold war. Whenever they can, Moscow and Peking stir up trouble for Western enterprise by playing upon African nationalism and parlaying anti-colonialism into anti-Americanism. So far, Soviet diplomacy and propaganda have had these results:

• A beachhead in Guinea, which now sells more than 50% of its exports to the Soviet bloc—compared with 3% in 1958.

• Aid and trade pacts with Ghana and Ethiopia, with others expected in Mali, Togo, and perhaps elsewhere, especially if Nikita Khrushchev makes his long-delayed trip to the African continent this year.

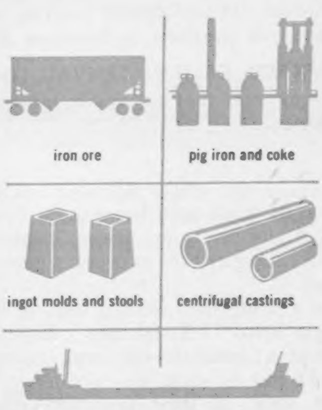
• A growing number of Africans who look upon Moscow as their natural ally in the fight against colonialism and who are willing mouthpieces for Communist propaganda. This is true even in Nigeria, which is considered one of the most stable of the new African countries.

• **Jungle Laws Change**—Another frustration for foreign companies in Africa is that an old law of the jungle has been reversed—the strong are no longer the best candidates for survival. A big company is a tempting and likely target for nationalistic attacks.

U.S. companies would like to see Washington extend its guarantees against loss in underdeveloped countries. These now are limited (as are Germany's and Japan's) to coverage against expropriation, nonconvertibility, and war. There's no insurance against perhaps the greatest worries of all: damage from civil strife, insurrection, or revolution. Washington may

Producing iron is an important Shenango function

For more than a half a century, Shenango has been producing iron in its once pioneer (now modern) blast furnaces in the Shenango Valley at Sharpsville, Pennsylvania. To feed these furnaces, Shenango takes ore from its own mines on the Mesabi Range in Minnesota and transports it through the Great Lakes in its own fleet of ore carriers. It also supplies coke from its own coke ovens. This is unusual, since Shenango is not a steel company. Some of the ore, coke and iron is sold to large and small steel producers and foundries. The rest goes into the making of ingot molds and stools and centrifugal castings which are important parts of Shenango's business.



the Shenango
FURNACE COMPANY
Oliver Building, Pittsburgh, Pa.
Plants at Sharpsville, Pa.; Dover, Ohio; Neville Island, Pittsburgh, Pa.

Leading U.S. Companies

OLIN MATHIESON CHEMICAL CORP.: Has $73.4-million investment in FRIA project in Guinea, giving company nearly half interest in aluminum consortium that includes Pechiney and Ugine of France, plus other European interests. Olin Mathieson, with other companies, is studying proposed projects in "several" West African countries. Company markets in most of tropical Africa, selling through distributors and its own sales offices a line of industrial chemicals, paper, packaging materials, sporting guns and ammunition, and pharmaceuticals.

AMERICAN METAL CLIMAX, INC.: Has one-third equity in Rhodesian Selection Trust Group on Rhodesian Copperbelt. AMC earned net of $4.5-million last year from its Rhodesian investments.

FIRESTONE TIRE & RUBBER CO.: Has 11-million rubber trees on 90,000 acres in Liberia. Contributes in income taxes about $7-million a year to Liberia's national revenue—roughly one-quarter the total. Company markets widely in tropical Africa, through distributors.

KAISER ALUMINUM & CHEMICAL CORP.: May become a major U.S. interest in tropical Africa. Kaiser is leading a consortium interested in building and operating large aluminum reduction plant near Volta River in Ghana. Plant eventually will cost about $180-million. Partners include Reynolds Metals Co., Olin Mathieson, and Aluminum Co. of America. Kaiser also has small share in Boké aluminum project in Guinea headed by Aluminium Ltd.

B. F. GOODRICH CO.: Newly arrived rubber grower. Has leased 100,000 acres in Liberia, planted 10,000 trees — which will start coming into production next year.

REPUBLIC STEEL CORP.: Has controlling interest (about 60%) in Liberian Mining Co. Liberian Mining exports 3-million tons of iron ore a year — half to U.S., half to Europe.

BETHLEHEM STEEL CO.: Shares in joint venture with Swedish, Canadian, and West German interests to back development of rich iron ore concession on Mount Nimba, near Guinea border of Liberia. Production expected to start in 1963, rise eventually to about 10-million tons annually. Bethlehem also has joined with European interests in tentative iron ore venture in Gabon.

U.S. STEEL CORP.: In joint venture with French to produce manganese ore in Gabon. Production expected to start this year, initially yielding about 500,000 tons annually. U.S. Steel has put in 49% of $44.3-million in private investments. Financing was aided by World Bank loan and French government aid.

UNION CARBIDE CORP.: Obtains manganese, columbium, and chromium ores from affiliated companies in Ghana, Nigeria, and Southern Rhodesia. Through distributors and its own sales base in Johannesburg (South Africa), Union Carbide markets chemicals, plastics, metals, carbon and graphite products in Southern Rhodesia and Nigeria.

TEXACO, CALTEX, STANVAC, SOCONY MOBIL, GULF are among U.S. oil companies that engage in marketing or exploration activities in tropical Africa.

widen its guarantees, however, to cover partial losses from major contract clauses abrogated by an overseas government.

In a sense, the modified code of the jungle helps U.S. business. Existing European interests—the real giants—would just as soon see outsiders take over some of their near-monopolies. That way, the wild-eyed nationalists will have a wider range of targets. Older companies are wary of expanding unless they have full approval from local governments.

II. Scale of Values

With some 20 independent countries open for investment—as well as a number of colonies awaiting freedom—a scale has emerged in tropical Africa setting some areas off against others as propitious places for U.S. investment. Since most nations are not even yearlings yet, the scale at best is tentative and will be for some time.

The picture is confused by Africans borrowing from European political philosophies in bits and pieces, and putting them into eclectic application to suit their own needs. It's not uncommon to see an African state adopting a little socialism in economic areas, a little communism in methods of holding power, and a little capitalism in business methods.

NIGERIA

Nigeria is considered the safest bet. It has the largest population (38-million), parliamentary institutions that seem to work, and a "moderate" English-speaking elite that retains cool but correct relations with its old colonial masters, the British.

Nigeria may be overrated, however, as an enclave of stability. Independent only since October, Nigerian rioters have attacked American property—including Bank of America's new branch and the U.S. Embassy—in the capital city of Lagos. Tribes have engaged in unpublicized but bloody fighting in the bush.

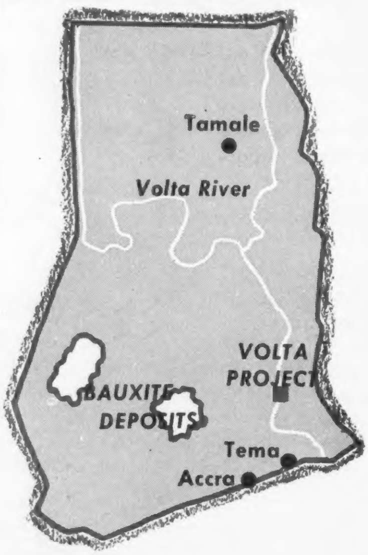
Furthermore, the Nigerians are as steeped in nationalistic emotions as anyone in tropical Africa. And the government has given a fillip to anti-colonialism by breaking relations with France over explosion of an atomic device in the Sahara Desert (1,800 miles from Lagos).

• **Business Spotlight**—Nigeria has the business spotlight for several reasons. Its government at the moment ardently supports the principle of free enterprise. Nigerian leaders now in power have been cool to Moscow and zealous in efforts to attract Western capital. There has been virtually no high-level talk about expropriation of foreign holdings. Beyond that, of course, Nigeria still depends upon Britain to buy most Nigerian exports.

Nigeria gets a hand from the Rockefeller Bros. Fund, which runs feasibility surveys in the country to

guide U.S. and other Western business investment. Rockefeller has surveyed a number of projects, such as a textile mill, glass works, and a nail factory. The Fund now is studying the feasibility of an Eastern Nigeria iron and steel complex in cooperation with the interested companies—Westinghouse Electric Corp., Koppers Co., Inc., Bechtel Corp., and Chase International Investment Corp.

Public relations counsel hired by Nigeria in the U.S. and the United Kingdom like to point out that there is less anti-white racialism in Nigeria than in some other parts of tropical Africa. In large part, they attribute this—if true—to the mosquito, which kept Europeans from settling in Nigeria as they did in Africa's dry and healthier climates.



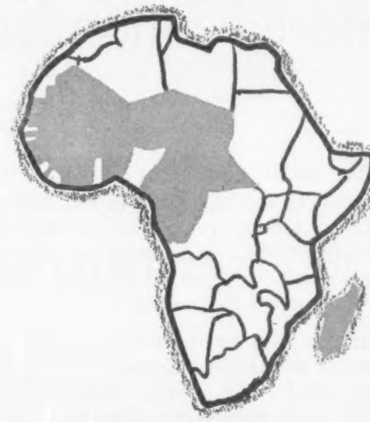
GHANA

Ghana, too, has caught U.S. business attention. It boasts the highest per capita income in tropical Africa ($194 yearly). Although the Rockefeller Fund surveys here, too, the Ghanaians have scared off some U.S. investors with almost hysterical ranting against colonialism and with an apparent keenness on Moscow.

Foreign businessmen on the spot are more piqued than panicked by Ghana's anti-colonial fervor. Although their own countries often are the targets, they look upon anti-colonialism as smart politics for Pres. Kwame Nkrumah. He needs an emotional issue to unify his tribal country. By leading the anti-colonialist onslaught, Nkrumah has built an image of himself—at home, at least—as a leader for all Africans.

Although Nkrumah describes his political philosophy as "Marxist Socialism," he cracks down on subordinates who get reckless with statements about nationalization. When a cabinet minister said last year that Ghana would nationalize some 200 foreign companies, Nkrumah swiftly denied the report and ordered the official to claim he was misquoted.

• **Reasoning**—Some businessmen justify their investment in Ghana on the theory that it will pay off before Nkrumah changes his views—or before the president is replaced by one of the pro-Soviet radicals with which Ghana abounds. In the meantime, Ghana has stirred further business interest with talk of a free port at Tema—which could be the forerunner of a number of new duty-free ports in Africa, if Ghana goes ahead with the idea.



FORMER FRENCH AFRICA

Some former French colonies hold promise but get little attention from U.S. business. The Ivory Coast and Senegal, for instance, are well-to-do by African standards, more friendly toward the West than the majority of their African brothers, and receptive to U.S. investment. Although the French have been generous with aid, some of their former territories are still almost too backward to consider. Take Mali and Chad. Either one passes as the Ecuador or Paraguay of Africa, with population scattered and communications primitive.

Guinea has room for Western business, but the Russian position there—and Sekou Toure's politics—are discouraging. Olin Mathieson and its European partners in the FRIA aluminum project recently witnessed, with some discomfort, Toure's nationalization of French interests in the national water and power utilities.

Still, Guinea would be promising for some businesses if it edged back into the Western economic orbit. Accustomed to Western merchandise,

Guineans in the market economy have been disillusioned with the quality and packaging of goods received from Communist-bloc countries.

BRITISH EAST AFRICA

East Africa is difficult for U. S. business. It is less developed than West Africa. Since East Africa is still under British rule, tension has been mounting, especially in Kenya—scene of the Mau Mau uprising. Tanganyika is less hostile than Kenya toward whites, but less developed. Experts predict that Tanganyika will be a stable country after independence in December.

RHODESIA & NYASALAND

The Rhodesias, too, are ticklish. A crisis is developing, with Africans on the point of revolt against the 300,000 whites who lord it over them. There are 8-million Africans. If the crisis is resolved peacefully, the Federation of Rhodesia & Nyasaland could see an influx of foreign capital. The outlook, however, is for trouble, with the federation perhaps splitting some day into its component parts of Northern Rhodesia, Southern Rhodesia, and Nyasaland. In that event, Northern Rhodesia would be best off because it has the rich Copperbelt to help support its economy.

CONGO

The Congo is out as a place for safe investment, but it has shown that business and chaos can coexist without either one finishing off the other. After the first smoke cleared in the Congo, most companies were still open for business. Mobil International Oil Co., for one, is selling now as much as it did (the U. N., of course, makes up for customers lost in the bush). Diamond and tin production have suffered, but copper is up.

The U. S. reputation for business enterprise has been tarnished in the Congo by private companies—possibly through fright—forfeiting their traditional second place as exporter to the former Belgian colony. Instead of taking their usual 20% slice of the market, U. S. exporters settled for 7.5% after the troubles started. Both Belgium and Britain are doing better than they did—and much better than the U. S.

By far the wealthiest area of the Congo is Katanga Province, whose economy is dominated by the Belgian mining giant Union Miniere du Haut-Katanga. Rich in copper, cobalt, and other metals, Katanga generated 60% of the Congo's income until independence last year. Then Katanga seceded, set up a "republic", and now even has its own currency. If it can retain most of its autonomy, Katanga would join a Congo confederation. Katanga has kept close ties with Belgium, cooperating under Premier Moise Tshombe with

Union Miniere, retaining Belgian civilian advisers, and integrating white officers into its army. The province has had stormy relations with the U. N.

LIBERIA

Liberia is a special case. Founded by freed American slaves in the 19th Century, Liberia, like Ethiopia, has never been a colony. It is the most backward nation on the West Coast. Its fewer than 2-million people would not be much of a market even if they had any money. As it is, most of the country's wealth is concentrated in an upper crust a few hundred strong. Liberia's major export is rubber, followed by iron—which will rival rubber as an income producer after an international consortium including Bethlehem Steel Co. begins exploiting new ore deposits. Republic Steel Corp., Firestone Tire & Rubber Co., B. F. Goodrich Co., and lesser U. S. interests have put about $125-million into Liberia, making it the major recipient of direct U. S. capital investment in tropical Africa.

III. Negotiating for Business

How does a businessman set up shop in Africa? He goes to the top in negotiating with a government for a concession or a factory. If his business is at all substantial—and if his corporate rank is fairly high—he'll meet with the prime minister, plus the appropriate cabinet member—and the ubiquitous European adviser.

The European adviser is a key man in virtually all tropical African governments, from Addis Ababa to Elisabethville. After four years of independence, Ghana still has about 500 Britons on its payroll.

European advisers work in the background, advising cabinet members and other high officials, and running the more technical branches of government that few Africans are trained at present to handle.

Many advisers have an important say, though they try to be as tactful and inconspicuous as possible. Africans are sensitive that they still rely on Europeans. And some Europeans—mostly hangers-on from the old colonial services—are sensitive about anything that might endanger their pensions.

"If it's a technical matter, I make the decision and the minister lets me coax him into accepting it," is the way a British adviser described his relationship with a cabinet member.

• **Watch Dogs**—The Europeans are largely responsible for keeping out the wheeler-dealers. Instilled with civil service conservatism, they react instinctively against razzle-dazzle in finance. Africans get some of the credit, too. They are inclined to be pragmatic, cautious men.

Even the late Patrice Lumumba, for all his wild-eyed political schemes, shied away from a tentative arrangement with New York promoter L. Edgar Detwiler, who planned to develop all Congolese natural resources on an exclusive basis for 50 years. Lumumba broke with Detwiler after hearing that the New Yorker had been criticized for deals in Europe.

• **Smart Politics**—A businessman who plans to negotiate with an African government for the first time should begin by consulting the U. S. Embassy or trusted business friends on whom to contact. Otherwise, he might lose time by getting involved with an African with a fairly high title but without power to negotiate. A second level of officials with competence and authority is awaiting the day there are enough Africans with the education.

In negotiations, African officials usually urge foreign investors to "Africanize." That is, integrate Africans not only into office staffs but into management.

Even at the cost of providing sinecures, many Western firms play along. Africanization is smart politics—and inevitable. The Africans intend to give their industry an African "face," even if it is foreign-owned. Some firms have elected an African director. Others have joined with local capital (usually supplied by the government), sometimes accepting a minority interest for themselves.

• **Illiteracy Problem**—A shortage of Africans with which to Africanize makes it awkward. The plain fact is that most Africans live in an abyss of ignorance, with illiteracy running about 85% and with only one out of six school-age children in school.

At the big mines, the problem is worse. They are in the bush. Anglo American Corp. and other enlightened companies have taken a big step forward by setting up schools and training facilities, which will make it easier to

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• **Watch Dogs**—The Europeans are largely responsible for keeping out the wheeler-dealers. Instilled with civil service conservatism, they react instinctively against razzle-dazzle in finance. Africans get some of the credit, too. They are inclined to be pragmatic, cautious men.

Even the late Patrice Lumumba, for all his wild-eyed political schemes, shied away from a tentative arrangement with New York promoter L. Edgar Detwiler, who planned to develop all Congolese natural resources on an exclusive basis for 50 years. Lumumba broke with Detwiler after hearing that the New Yorker had been criticized for deals in Europe.

• **Smart Politics**—A businessman who plans to negotiate with an African government for the first time should begin by consulting the U. S. Embassy or trusted business friends on whom to contact. Otherwise, he might lose time by getting involved with an African with a fairly high title but without power to negotiate. A second level of officials with competence and authority is awaiting the day there are enough Africans with the education.

In negotiations, African officials usually urge foreign investors to "Africanize." That is, integrate Africans not only into office staffs but into management.

Even at the cost of providing sinecures, many Western firms play along. Africanization is smart politics—and inevitable. The Africans intend to give their industry an African "face," even if it is foreign-owned. Some firms have elected an African director. Others have joined with local capital (usually supplied by the government), sometimes accepting a minority interest for themselves.

• **Illiteracy Problem**—A shortage of Africans with which to Africanize makes it awkward. The plain fact is that most Africans live in an abyss of ignorance, with illiteracy running about 85% and with only one out of six school-age children in school.

At the big mines, the problem is worse. They are in the bush. Anglo American Corp. and other enlightened companies have taken a big step forward by setting up schools and training facilities, which will make it easier to

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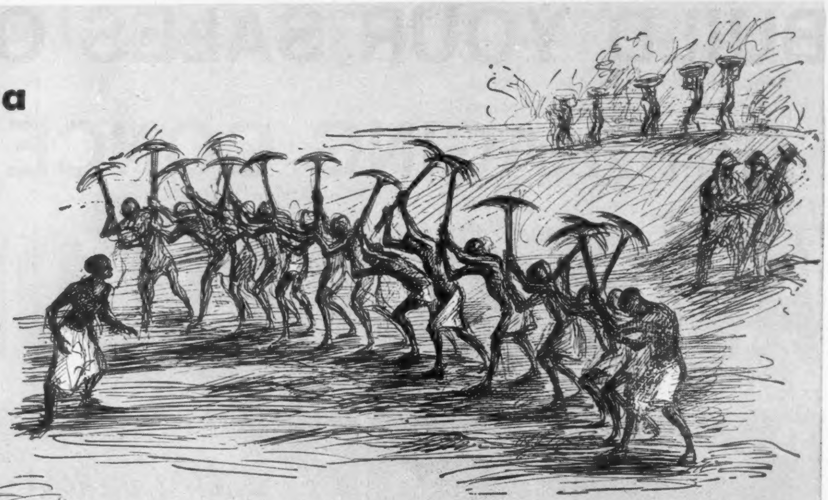
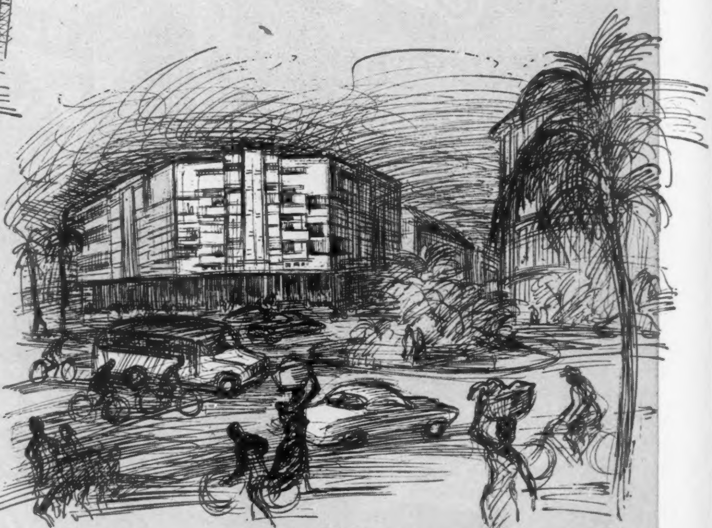
As Tropical Africa Enters New Era



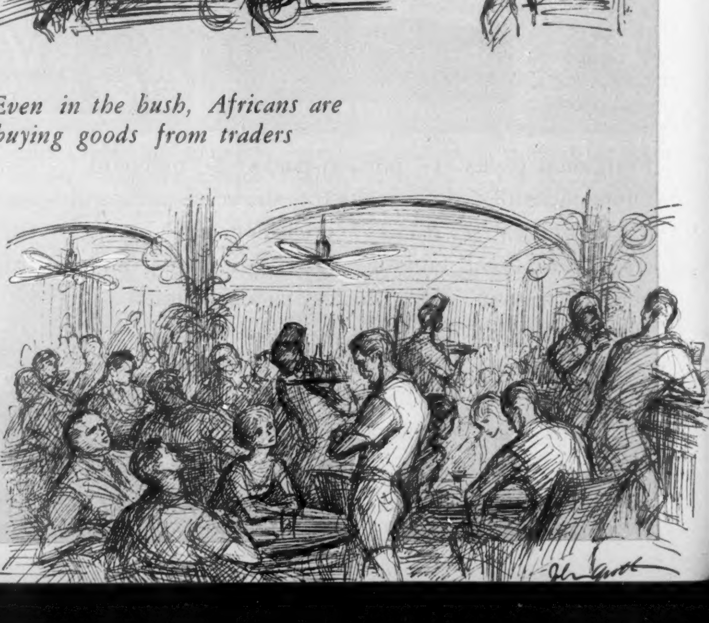
...Africans still use hand tools

...Work in mines and factories owned by Europeans



...More Africans are moving into cities

...Even in the bush, Africans are buying goods from traders



...Europeans still hang out at clubs to escape the tropical sun

TROPICAL AFRICA

Africanize with the next generation.

Since most Africans who receive university training tend to enter law, politics, or medicine, Western companies find among the educated Africans very few who are available for new jobs opening up in business management, engineering, and research.

IV. Frustrations

For the businessmen of dozens of nations—from Japan to Argentina—Africa is open game. Cosmopolitanism pervades the air-conditioned hotel lounges, bars, and restaurants where businessmen shelter from the white, hot sun in tropical Africa.

At separate tables in the Ambassador Hotel in Accra (Ghana), a visitor recently saw West Germans discussing machinery, Kaiser officials talking about the Volta project, plus Russians, Israelis, Japanese, and Chinese.

The international flavor loses its zip, however, for the businessman who lingers in tropical Africa and comes to grip with African reality. A 10-minute drive from the plush Ducor Palace Hotel in Monrovia puts him in the Liberian bush. Two steps in any direction uncovers squalor in almost any African city.

For the business executive with no time to spare, tropical Africa can be endless frustration unless the government or a business associate has smoothed the way for him. Hotels often overbook, which means the traveler sometimes loses hours waiting for a room to be vacated—or finding another hotel. Appointments tend to be late starting and long-lasting. Office hours start early but end early.

Another annoyance for the businessman is air transportation. Connections are bad, and a trip between two cities usually involves intermediate stops, sometimes overnight. Beyond that, African customs officials often cause far more delay than those, say, in Europe.

• **Taste Buds Suffer**—Some Americans complain about the food in Africa. The better restaurants in cities formerly under the French or Belgians, however, offer good European cuisine and a reasonable assortment of wines. Restaurant food in cities formerly under the British is not bad. Many West African dishes are too highly seasoned for the average American palate, but they offer a contrast to the normal fare for Westerners in Ghana and Nigeria. Li-

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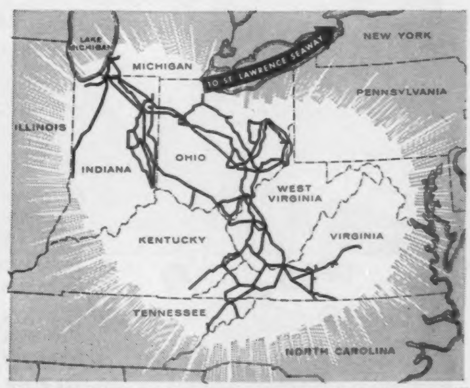

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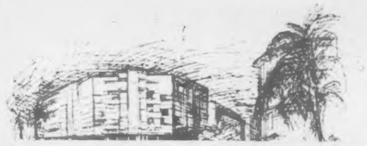


TROPICAL AFRICA

beria is the low point for the traveler. Food is drab, prices high.

Language is not a problem for the American businessman in former British colonies. Elsewhere, however, his French should be equal to the soft, rich accents with which Africans endow the language—or he should have an interpreter.

V. Personnel Problems

Some companies have a problem keeping American personnel happy in tropical Africa—especially in the clammy, humid coastal cities of West Africa. Good housing is hard to find, food is expensive, and the insects aggressive. In humid areas, the climate is debilitating.

Compensating for these disadvantages are income tax breaks for resident personnel, living allowances, and usually two or more servants who, for low wages, make life considerably more pleasant for the housewife.

Nothing, however, removes the threats of nature. Africa has dread diseases, for one thing. In some places, Westerners drink only bottled water. Chloriquine and Atabrine tablets are consumed by the thousand. A threat to swimmers is the crocodile population in the rivers.

In his leisure hours, the resident American is confined pretty much to a circle of Westerners at the local swimming or tennis club. Africans and Europeans (as Americans are called on the continent) do little mixing.

• **Personal Risk**—The element of personal risk is probably overplayed. Although there are occasional riots in which cars are burned, property destroyed, and perhaps some injuries to whites, the chances of serious injury or death by violence are less than the stranger takes in parts of New York or Chicago.

What risk there is, however, is part of an over-all picture that many Americans find oppressive.

The African obsession with anti-colonialism, for one thing, gets some foreigners down, like a jangling radio commercial that is played over and over.

• **Jangled Nerves**—African ambivalence, too, gets on the Westerner's nerves. At first, he may be amused at the African convert who clings to his wives as well as to Christianity, or the office worker who goes to the company doctor for an examination, then to the witch doctor

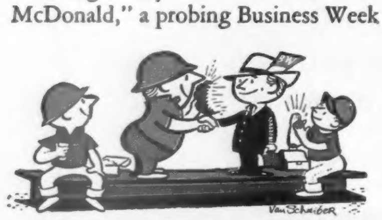
Minding our own business

BACKSTAGE AT BUSINESS WEEK

Turnabout is fair play. Ever believed in mental telepathy? Well, one of our crack reporters was assigned the job recently of finding out how a certain American corporation was handling its Cuban losses. Just as our man was

about to phone the company, *they* called *him*. Seems they wanted to know (1) what other companies were doing about the problem and (2) what the U. S. Government's position was on recognition of Cuban losses. We're pleased as punch when Business Week management subscribers *personally* tap our vast fund of business knowledge. But, say . . . who's interviewing whom around here?

Feather in our cap. This time a Golden Quill! No, it's not a pen but a prize awarded to Business Week's Pittsburgh Bureau Chief, Dick Larkin, for distinguished magazine reporting. Dick's winning entry? "Crucial Test for McDonald," a probing Business Week



article on the United Steelworkers' headman. The Golden Quills are cosponsored by the Pittsburgh Chapter of Sigma Delta Chi (national journalism fraternity) and the Pittsburgh Press Club.

TROPICAL AFRICA

for treatment. After a while, some foreigners find, it is too much.

Irritation grows with the African press, which is still in its journalistic diapers, presenting little news and much irresponsible opinion. You can't count on the local press for reliable information on business and economic conditions. Even in Nigeria, the press tends to be hostile toward the West, railing in strident voices (fashioned after the British tabloids) against "economic imperialism." In a kind of editorial schizophrenia, however, newspapers usually give polite publicity to companies that set up there.

Finally, many Westerners discover that they begin losing their efficiency in tropical Africa. That is why foreign corporations have liberal home leave policies for their representatives on the continent, bringing them home once every 18 months or so.

VI. Patterns for Success

You can learn a lot about Africa from an old-timer like Unilever, Ltd., of London. It runs United Africa Co., Ltd., an empire of trading companies built up from colonial days. Today, it dominates commerce in West Africa, and plays a big role in the rest of tropical Africa.

Wherever the American businessman goes, he'll brush up against this commercial leviathan. It has many roles: buyer, supplier, agent. It also has companies that manufacture and process.

Other trading empires—French, Belgian, and Swiss—are big. But United Africa is the largest of all, with business volume, mostly at the wholesale level, running $830-million a year. Its subsidiaries are set up in all of former British West Africa, British East Africa, most former French territories, plus the Belgian Congo and the Federation of Rhodesia & Nyasaland.

Not infrequently, UAC subsidiaries directly compete with each other in a system one company official describes as "wholly owned competition."

• **Model for Business**—United Africa has continued to prosper and grow during Africa's march to independence, and it has set some examples for other businesses.

It began ingratiating itself to many Africans years ago by undertaking a vigorous Africanization program. UAC increased the percentage of Africans on its office payroll from 4% in 1939 to more than 30% today, bringing 185 Africans into its management echelons (compared with 750 British "expatriates") in Nigeria alone.

A stroke some businessmen in West Africa consider inspired was the group's relinquishment of scores of small retail stores to their African managers, who as owner-operators buy UAC goods and symbolize the company's "progressive" attitude toward Africans.

UAC usually sidesteps when it finds itself in the way of African ambitions. It sensed several years ago that the Ghanaian government wanted to take over cocoa buying. UAC got out of the field. The government now has announced that cocoa purchasing will be a state monopoly beginning next year. And there's no ill will on this score toward the company.

• **Master Merchant**—At the government's suggestion, UAC is building modern department stores in Ghana. It feels secure in its knowledge that the Ghanaians don't feel ready to operate this kind of business—yet. For the most part, retailing in tropical Africa now is in the hands of tens of thousands of petty merchants—African, Asian, and Arab. They operate in bazaar stalls, small shops, and even on bicycles, often selling cigarettes singly, sugar by the lump, and salt by the "twist."

UAC, incidentally, sells many U. S. brands, such as Pillsbury and Caterpillar, through its many outlets. Although this is probably the easiest way to get U. S. products into wide distribution in Africa, it is not considered the most profitable by some corporations.

• **Bush Salesman**—One of them is Nicholson File Co., a major U. S. producer of industrial files. It has a salesman traveling the continent, and he may be the only American expert on how to sell in the African bush.

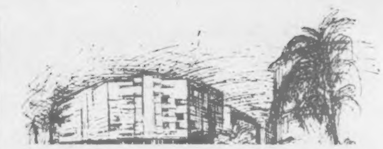
His name is George S. George. It takes him 14 months to cover his territory.

"For any corporation whose product helps keep knives sharp," George says, "the African bush is a market. But it is hard to reach.

"Sometimes I hire a pickup truck and drive the crates into the bush myself," George told a BUSINESS WEEK reporter. "I wait where the road ends until my customer shows up, with his wives. The wives put the crates on their heads and disappear into the trees. The customer always pays cash, and then he disappears into the bush."

George goes on:

"To sell in the bush, the first thing you need is a good graphic brand. Natives are very brand conscious because they're illiterate. You also need quality. The Africans have learned that a good file lasts longer, and that it can save a walk of perhaps 15 miles to the



nearest storekeeper for a replacement. It also keeps the African up with his neighbors.

"When I meet with a customer in some village or town, he crosses his fingers. That shows he wants to talk about our brand, which is two crossed files. I ask him how many boxes of files he wants, and tell him how much they cost. He says: 'Too dear, dear, dear.' I answer: 'Too cheap, cheap, cheap.' Then we're off. We palaver for a long time. Then he agrees to my price.

"Don't think I sell only to Africans in the bush. We sell to companies and to storekeepers in the cities, too. But they don't make the same sort of dinner conversation."

VII. More Aid

Despite the interest of Nicholson File and other companies in the continent, Africans are frankly disillusioned at finding foreign investment coming into their countries in driblets instead of dollops.

As colonies, the African states followed the classic pattern: one-crop or one-mineral economies regulated by European administrators and companies, and dependent on trade with the mother country.

Now, as independent nations, these countries find that the pattern hasn't changed. Paris and London still are the big buyers and sellers, and the variety of imports still is infinitely wider than the number of exports.

This, of course, is grim for the Africans. They are vulnerable to world price fluctuations while their imports —running about $3-billion a year for all tropical Africa—consist of goods such as farm implements and motor vehicles with stable or rising prices.

• **Peg to Foreign Aid**—Tropical Africa's biggest hope now is pegged to foreign aid, from West and East. What it's getting from the West runs about $1-billion a year in aid and technical assistance—not enough to turn the tide, but far more than the Communist bloc is giving. The bulk of Western aid comes from France and Britain.

More aid is in the cards from both East and West, as the power struggle for world influence heightens. The U.S., for one, is stepping up its program. This may bring in private investment at a faster clip.

• **Trading Patterns**—Although Africa's

TROPICAL AFRICA

new states are eager to rebuild their economies on a diversified base, they don't intend to restructure completely their trade patterns. Former British colonies will continue to sell mainly to the Commonwealth. Former French colonies (except Guinea) are holding fast to their trade ties with Paris, to keep the markets already there and also to develop new ones in the six-nation European Economic Community.

Regional trading blocs are likely to emerge in tropical Africa. In fact, it's important that they do. An Africa of touchy, nationalistic states trying to exist independently will lead only to a poorer continent—something bad for the Africans and bad for foreign investors. Ghana, Guinea, and Mali already have formed a loose union that may lead to a common currency and common market. Others are in the works, such as the Afro-Malagasy Economic Union involving twelve former French colonies.

VIII. Tips from Old-Timers

Old African hands are generous in giving tips to businessmen interested in investing in Africa. They figure the more foreign capital in Africa, the better for them—if it comes in intelligently and behaves.

Their advice:

Accept African independence gracefully, even as the Africans abuse it. Africans want to exert their new sovereignty, to make their own choices, to assert their opinions.

Learn the reasons for African suspicions of the U. S.—even if they don't make sense. For one thing, Africans associate the U. S. with racialism. But that's not all. Although the U. S. always has stayed out of Africa, Africans associate the U. S. with colonialism through its NATO partnership with the colonial powers of Britain, France, Portugal, and Belgium. However, the U. S. vote in the U. N. against Portugal on the Angola question had a favorable reaction among Africans. The Kennedy Administration has indicated that it will continue to take a strong stand against colonialism.

Africans look at Moscow as the white champion of anti-colonialism, dismissing the fact that Soviet control has been extended since 1940 to some 12 previously free countries in Europe with a population well over 100-million. Moscow has come out with an

A Businessman's Glance at Africa — Vari

Country and Capital	Pop. in Millions	Chief Resources	Political Status	Business Language	Currency	
BRITISH AND FORMERLY BRITISH						
NIGERIA (Lagos)	38	Cocoa, palm kernels and palm oil, peanuts, tin, oil, iron, coal	Independent (Oct. 1960)	English	Nigerian pound; at par with British pound ($2.80)	A favorite for U.S. business despi internal rumbles, some hot-eyed n tionalists. Now exporting oil, wi have refinery. American banks ope ing. Manufacturing expanding.
GHANA (Accra)	6.7	Cocoa, bauxite, diamonds, gold wood, manganese	Independent (March 1957)	English	Ghana pound; at par with British pound	Wealthy for Africa but socialist ou look frightens investors. Hope pinned to Volta River hydro-electr and aluminum project, which U.S loans, private capital helping to back May establish free port at Tema.
FEDERATION OF RHODESIA & NYASALAND (Salisbury)	8.5	Copper, tobacco, zinc, gold, lead, cobalt, chrome ore, coal	So. Rhodesia—self-governing colony No. Rhodesia & Nyasaland—protectorates	English	Rhodesian pound; at par with British pound	White-dominated, strained by racia crisis. Although dependent largely o copper and tobacco, has enoug manufacturing to make it a leader i intra-African trade. Salisbury is mod ern, commercial city.
SIERRA LEONE (Freetown)	2.3	Diamonds, iron, palm products, cocoa	Independence April 27, 1961	English	West African Currency Board pound; at par with British pound	Hopes to find significant bauxit deposits. Has seasonal water shor age.
KENYA (Nairobi)	6.5	Coffee, tea, sisal	Colony; independence promised but not scheduled	English	East African Currency Board shilling: 20 shillings = £1	Scene of Mau-Mau uprisings, there' anxiety about what independenc and black rule will mean for whi settlers in the coveted Highland
TANGANYIKA (Dar-es-Salaam)	9	Diamonds, sisal, coffee, hides and skins	Brit.-administered U.N. trust territory; independence Dec. 28, 1961	English	EACB shilling	Woefully underdeveloped, has man economic problems. In Julius Nyer re, has enlightened African leade ship. A little aid would go a lon way. Important diamond producer.
UGANDA (Entebbe)	5.8	Copper, coffee, cotton, tea	Brit. protectorate; independence promised but not scheduled	English	EACB shilling	Internal political troubles may hi der development. Might eventuall federate with Kenya, Tanganyik Commercial center is Kampala.
GAMBIA (Bathurst)	.29	Peanuts, palm kernels	Brit. colony & protectorate	English	WACB pound	Smallest of Britain's West Africa territories, probably unable to go i alone if given independence; coul merge with Senegal.
BRITISH CAMEROONS (Lagos)	1.6	Cocoa, rubber, palm kernels	U.N. trust territory	English	WACB pound	In recent elections, Northern Regio voted to join Nigeria and Souther Region to join Cameroun Republic
FORMERLY FRENCH						
IVORY COAST (Abidjan)	3.1	Coffee, cocoa, bananas, wood	Independent (Aug. 1960)	French	Franc C.F.A.* (246 fr. C.F.A. =$1 U.S.)	Wealthiest of old French colonie with exports and imports exceedin $100-million annually. Renault buil ing car assembly plant.
GUINEA (Conakry)	2.5	Bauxite, coffee, diamonds, iron ore	Independent (Oct. 1958)	French	Guinea franc (at par with franc C.F.A.)	Rich in natural resources, has a tracted Western investment. Curre orientation toward Moscow makes major risk for investors.
SENEGAL (Dakar)	2.3	Phosphates, peanuts	Independent (June, 1960)	French	Franc C.F.A.	Dakar is a leading African port, han dling more than 4,000 ships a yea and serving neighboring nations. Ha attracted variety of French industr A continental crossroads.
CAMEROUN (Yaoundé)	3.2	Cocoa, coffee, wood, peanuts	Independent (Jan. 1960)	French	Franc C.F.A.	Extreme leftists active outside go ernment. Douala, port city, has e panded harbor facilities. Hydroele tric potential.
CENTRAL AFRICAN REPUBLIC (Bangui)	1.2	Coffee, cotton, wood	Independent (Aug. 1960), formerly Ubangi-Shari	French	Franc C.F.A.	Landlocked, very poor in natural r sources; railroad under constructio
CHAD (Fort-Lamy)	2.6	Cotton, livestock	Independent (Aug. 1960)	French	Franc C.F.A.	After independence, farmers slowe down. Government counting heavil on French aid.

*Colonies Francaises d'Afrique

esources, Many Markets

Country and Capital	Pop. in Millions	Chief Resources	Political Status	Business Language	Currency	
ORMERLY FRENCH						
ONGO (Brazzaville)	.78	Wood, lead, petroleum	Independent (Aug. 1960)	French	Franc C.F.A.	New deposits of phosphates and diamonds have been discovered.
DAHOMEY (Porto Novo)	1.8	Peanuts, palm products	Independent (Aug. 1960)	French	Franc C.F.A.	Mineral resources nil but highest population density in West Africa. Good education record. Deep water port under construction at Cotonou.
GABON (Libreville)	.42	Wood, oil, iron, manganese, uranium	Independent (Aug. 1960)	French	Franc C.F.A.	Manganese deposits are significant, but forests remain chief source of wealth.
MALAGASY (Tananarive)	5.2	Cloves, coffee, rice, sugar, tobacco	Independent (March 1960), formerly Madagascar	French	Franc C.F.A.	Geographically isolated, island has rapidly expanding domestic market and relatively advanced agricultural economy.
MALI (Bamako)	3.7	Cotton, gum arabic, livestock	Independent (June 1960)	French	Franc C.F.A.	Follows Guinea and Ghana in pro-Communist diplomacy. Minor aid from West and Israel.
MAURITANIA (Nouakchott)	.65	Iron, copper, fish	Independent (Nov. 1960)	French	Franc C.F.A.	Population chiefly nomadic Moors. Capital still under construction. Vast iron deposits hold promise. New port facilities planned.
IGER (Niamey)	2.5	Phosphate, peanuts, livestock	Independent (Aug. 1960)	French	Franc C.F.A.	Uranium discovered. Petroleum exploration under way. Landlocked. Islam strong.
OGO (Lomé)	1.1	Cocoa, coffee, iron deposits	Independent (April 1960)	French	Franc C.F.A.	Plans first deep-water port. Has attracted Soviet and Czech interest. U.S. plans I.C.A. mission. May form economic union with Dahomey.
PPER VOLTA (Ouagadougou)	3.7	Livestock, wood, copper, iron, manganese	Independent (Aug. 1960)	French	Franc C.F.A.	Economic ties with Ivory Coast. Some domestic political strains. Very poor.
ELGIAN AND FORMERLY BELGIAN						
ONGO (Leopoldville)	13	Copper, industrial diamonds, cobalt, palm products, tin, coffee, uranium	Independent (June 1960)	French	Congolese franc (50 Congolese francs = $1 U.S.)	Rich potential spoiled by chaos, tribal politics, and international friction involving East, West, other African states, and the U.N.
UANDA-URUNDI (Usumbura)	4.7	Palm products, tin, pyrethrum, coffee	Belgian-administered U.N. trust territory	French	Congolese franc	Torn by tribal conflict. Africans accuse Belgians of setting up another Congo.
PORTUGUESE						
NGOLA (Luanda)	4.5	Diamonds, coffee, sisal, maize	Overseas province	Portuguese	Escudo (28.9 escudos = $1 U.S.)	Racial violence mounting. Portuguese monopolize market. Some U.S. capital sought for developing copper concessions.
MOZAMBIQUE (Lourenco Marques)	6.2	Cashew nuts, copra, cotton, sisal, sugar	Overseas province	Portuguese	Escudo	Less racial ferment than Angola but strictly a Portuguese preserve. Some U.S. oil exploration.
RADITIONALLY INDEPENDENT						
IBERIA (Monrovia)	1.3	Rubber, iron ore	Independent since founding in 1847	English	U.S. dollar	Has attracted more U.S. investment than other countries in tropical Africa. Because of close ties with U.S., sometimes considered a quasi-colony.
THIOPIA (Addis Ababa)	21.6 Est.	Coffee, hides and skins, oilseeds	Independent since Biblical times	English	Ethiopian dollar 1 = $.40 U.S. (approx.)	Very backward (99% illiteracy), little income, but inching forward under Emperor Haile Selassie. U.S. technical missions predominate; Soviets active.
OTHER						
OMALIA (Mogadishu)	1.3	Cotton, livestock, hides and skins	Independent (July '60), incorporates former Italian & British Somaliland	English, Italian, Arabic	Somalo 7.2 somali = $1 U.S.	Depends primarily on aid from U.S., Italy, and Britain; economy weak even by African standards.
UDAN (Khartoum)	11	Cotton, cattle, peanuts, gum arabic	Independent (Jan. 1956), formerly Anglo-Egyptian Sudan	English, Arabic	Sudanese pound = £1.025 U.K.	World's second largest supplier of long staple cotton. Prudent financial policies. Prospects favorable for economic growth. Past irrigation projects successful; needs more.

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unqualified attack on colonialism. Besides, Africans believe that Russia—and China—have much to teach underdeveloped nations that want rapid industrialization.

Africanize to the hilt. Accept local capital if it's offered. In some countries, such as Nigeria, the government may want a small majority ownership in your factory. It's good insurance. It's good public relations.

Get the best public relations advice you can find on the spot. It will be invaluable guidance to solving problems that are peculiarly African, from defining local taboos and customs to advising which way the political winds are blowing. Another public relations must—play along with the African trade unions, which are just getting on their feet and may be producing the next crop of African leaders.

Send the right people to represent you. Dr. George H. T. Kimble, in his survey, Tropical Africa, for the Twentieth Century Fund, says that Westerners in Africa should go there with the "right look in their eyes." It takes a sympathetic man to endure African hauteur while living in view of African squalor.

Don't be conspicuous. When Africans go on a nationalistic bender, the best targets are the broad ones. The Lagos riots taught a lesson. Chase Manhattan Bank was not attacked. It was too new to be widely known, and it doesn't have "America" in its title.

Stay clear of business that competes with Africans or engages in lines that the Africans think they are able to do.

A British expatriate, after summing up the points he would make to a newcomer in business, adds this: "Beware of old-timers who give advice. I can't say we've done everything right. There may be a few things we've done wrong."

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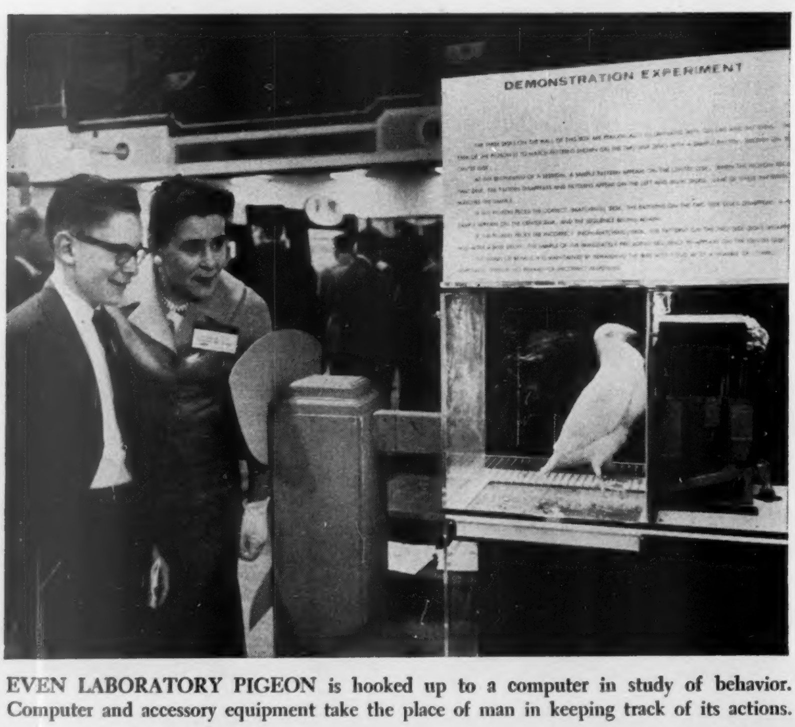
Biologists Gain on All Fronts

NOBODY HAS BETTER EQUIPMENT, biologists agreed after touring the huge exhibit floor. Like the lab tools in other sciences, much of it is complex and automatic.



EVEN LABORATORY PIGEON is hooked up to a computer in study of behavior. Computer and accessory equipment take the place of man in keeping track of its actions.

This week, more than 12,000 of the country's top scientists met in Atlantic City, N. J., for the 45th annual meeting of the Federation of American Societies for Experimental Biology. As in all such large meetings, there was considerable overlapping of topics, and general confusion over which of the six member societies was supposed to be covering which phase of developments.

Out of all the boardwalk chatter and Convention Hall gatherings, however, two facts emerged clearly:

- Tremendous progress has been registered in the field of biology during the past year.
- Biologists will soon be able to match any other group in modern automated laboratory equipment (pictures). There are, for example, new devices that can automatically extract, isolate, and analyze anything from fats and amino acids to instream gases and radioactive fractions of molecules.

At a theoretical level, those attending the conference were equally excited about the implications of some of the latest findings.

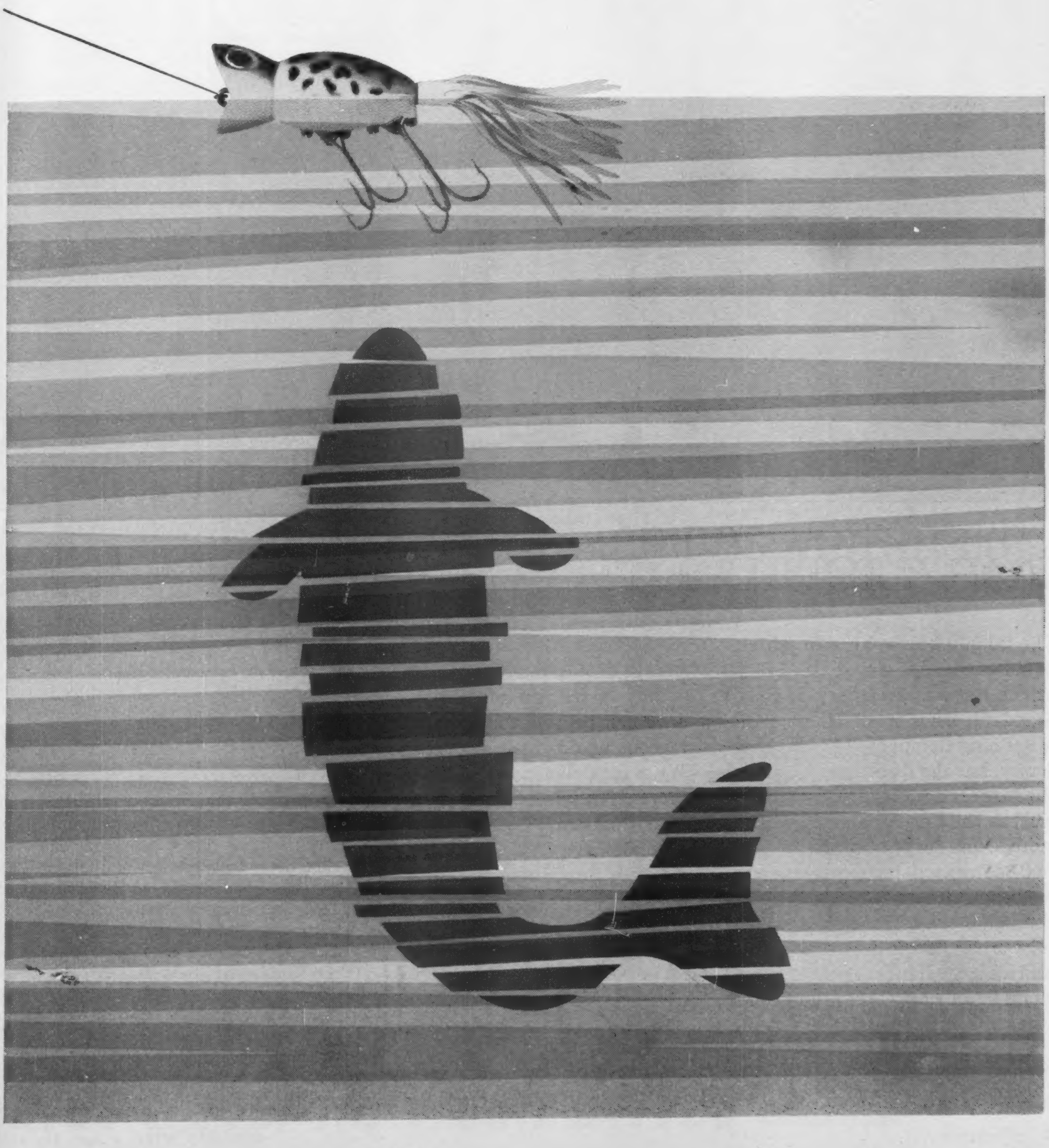
• **Heredity Clue**—For example, scientists heard Samuel B. Weiss of the University of Chicago describe a new theory for the way in which nature transmits messages about heredity from one part of a living cell to another. According to Weiss, a chemical mechanism passes the information first from DNA (deoxynucleic acid) to RNA (ribonucleic acid) and then on to the various proteins and enzymes of the body.

If the Weiss theory can be confirmed, it would mean a great deal in all fields of disease prevention, particularly in the development of new methods to control aging (BW—May5'56,p110) and degenerative diseases.

• **For Best Diets**—A joint paper presented by researchers from Chas. Pfizer & Co. and the National Institutes of Health at Bethesda, Md., suggested that it may not be long before a simple blood test is available that will indicate what a man or animal should eat to stay healthy and develop properly.

Most scientists say it's unlikely that a complete "ideal" diet for everyone can ever be developed. But the possibility that a "tailor-made" diet can be worked out for certain individuals has important medical implications, not only in therapy but also in the supplementing of human and animal foods.

• **Arthritis**—New hope for arthritics was offered by doctors from New York University's School of Medicine. The search for causes of certain forms of arthritis has turned recently to the



study of allergy. In several diseases in which arthritis occurs, allergy is thought to play an important role in tissue damage—hence can be considered a possible "trigger."

In the research at NYU, guinea pigs were made sensitive to one type of protein. When this protein was then injected into the animal's joints, the joints developed a semblance of the disease known as rheumatoid arthritis.

Such tests do not prove that rheumatoid arthritis is always due to an allergic mechanism, but they indicate a fresh new approach to research in the field. Furthermore, they cast serious doubt on the current theory that arthritis is due to an antibody circulating in the bloodstream. In search of this antibody, some of the nation's leading biologists have run into a stone wall in recent years (BW—Feb.25'56,p86).

• **Coronary Disease**—A team of physiologists and biochemists at the University of Texas reported evidence that the form of heart attack known as coronary thrombosis may result either from an overactive clotting system or from an underactive clot-dissolving system.

During exercise, there is an increased tendency for blood clots to form, doctors theorize, to counter any tendency toward hemorrhage in the heart or other organs. But in healthy individuals, an increased amount of a special enzyme is also released into the blood to dissolve these clots.

In the healthy person, after exercise the enzyme stops flowing; there is no further need at the moment for a clot-dissolving agent. But in some people, the theorizing continues, the enzyme release and shut-off may be badly timed. This could account for the presence of blood clots (or thrombi) in the bloodstream hours after exercise. And it could, researchers hope, point the way to eventual control of this type of heart attack.

• **Alcohol's Effect**—Research now points to an upset of long-held beliefs concerning the cause of liver damage in alcoholics, according to doctors from the University of Tennessee.

The theory has been that liver damage in alcoholics comes from a dietary imbalance and a resulting nutritional deficiency. Now, however, there is fairly substantial evidence that alcohol has a much more direct damaging effect on the liver. In laboratory animals, at least, there's good reason to believe that an overdose of ethyl alcohol causes a major alteration of fat metabolism by the liver.

• **Emotional Stress**—For diseases of the mind, drugs have been produced in recent years, notably tranquilizers to control the hyperactive mind and antidepressants to perk up the suicidally despondent mind (BW—May3'58, p131). Yet no one has been able to

describe completely the process by which drugs control the mind, though research on this is continuing.

One report on a series of experiments simultaneously at the University of Illinois and at Baylor University, supports a view that all mental activity involves some sort of chemical reaction, hence that the chemical process can be upset by the introduction of other chemicals.

Proof seems closer at hand for the long-accepted but never proven link between emotional stress and coronary disease. Researchers at Harvard Medical School injected abnormal amounts of adrenalin-like substances into the bloodstream of dogs. These same substances, according to Harvard's Dr. A. Clifford Barger, are released in man during emotional stresses.

In dogs, the infusion resulted in electrocardiograms similar to those seen in early heart disease in man. The next step will be to discover drugs that will deflect the adrenalin-like substances from doing permanent damage to the coronary system.

• **Tooth Decay Catching**—In the field of bacteriology, the Forsyth Dental Infirmary in Boston is following up an NIH report that tooth decay in a colony of hamsters could be transmitted from one animal to another. The Boston team is studying people.

Dr. Ronald J. Gibbons reported that early results indicate that micro-organisms on the surface of teeth store up sugar each time a person eats. These organisms appear capable of converting the stored carbohydrate to acids that produce tooth decay. Once the micro-organism has been identified, it should be possible to develop a counteracting chemical.

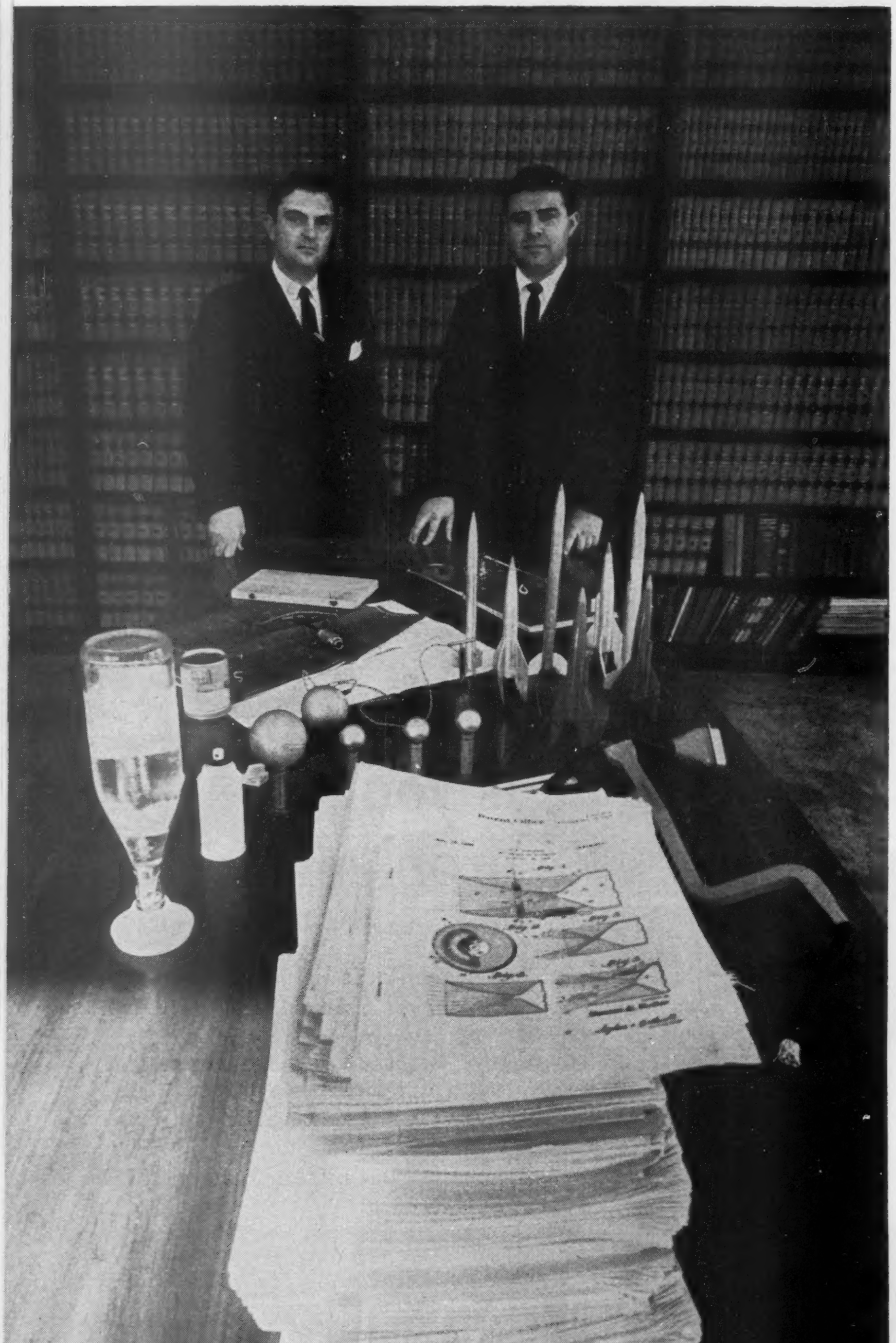
• **Nitrogen Fixation**—Du Pont scientists reported progress in analyzing one of the major life processes, the biological fixation of nitrogen. Nature's proficiency in carrying out this process at ordinary temperatures and pressures has long fascinated scientists—the commercial fixation process requires very high temperatures and pressures to make ammonia and similar materials.

Last year, du Pont reported success in separating nitrogen-fixing chemicals from bacteria and stimulating them to perform outside the bacterial cell. This year, du Pont reported the discovery that nature apparently uses enzymes, which are protein substances, much as a chemist uses a catalyst to promote a chemical reaction. Two enzymes (one hydrogen-donating and the other nitrogen-activating) have been identified in the natural fixation of nitrogen. It takes both of them, says the du Pont team, to cause an atom of nitrogen to hook onto a particular organic chemical molecule.

Further study along this line could have important industrial as well as scientific implications. END

NEW PRODUCTS

The Riches in Dormant Patents



RAW MATERIAL for National Patent Development Corp. is the stack of patents in the foreground, above. Martin Pollak (left, in picture), vice-president, and Jerome Feldman, president, have a consulting staff of experts who dig usable ideas out of files of such patents. Objects on table illustrate the kind of ideas that come out of this.

Ideas lying idle in company files are matched with commercial uses by a New York group that works at both ends—for inventor and for buyer.

Thousands of patent lawyers all over the country help inventors find a market for their patents. And several organizations track down ideas for new products their clients can make.

Two years ago, National Patent Development Corp., run by two young New York lawyers, set out to work both sides of the street. In this operation, Jerome Feldman and Martin Pollak (picture) are associated with Jess Larson of Washington, former War Assets Administrator who serves as board chairman.

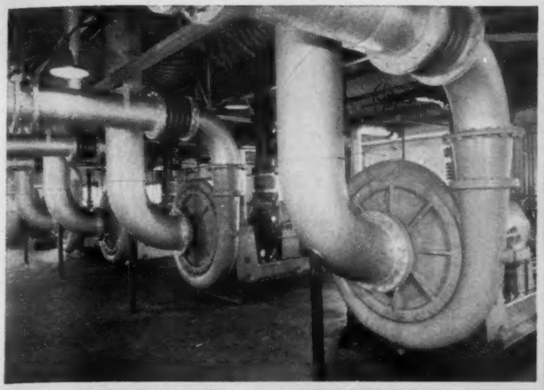
For some clients, who include several very large companies and research groups, National finds an outlet for patents; for others it acts as a new-product scout. For most, in fact, it performs both services at once. Unlike patent brokers who draw fees only from the inventors, or new-product scouts who get them only from the companies that buy the patent rights, National derives its revenues from both, under contracts.

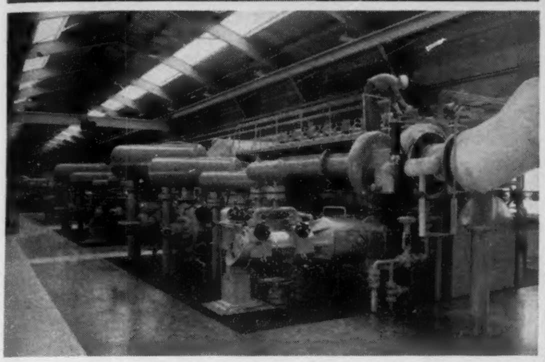
Out of this experience in acting as a go-between, Feldman and Pollak have developed a specialty of screening dormant patents—thousands of which are lying idle in the files of big corporations—and finding uses for the best of them. To screen patents, they have a consulting board made up of patent lawyers, scientists, and engineers.

• **Proof of Progress**—In the picture at left are several items that are involved in negotiations right now. These models and prototypes have a good chance of being on production lines in the near future:

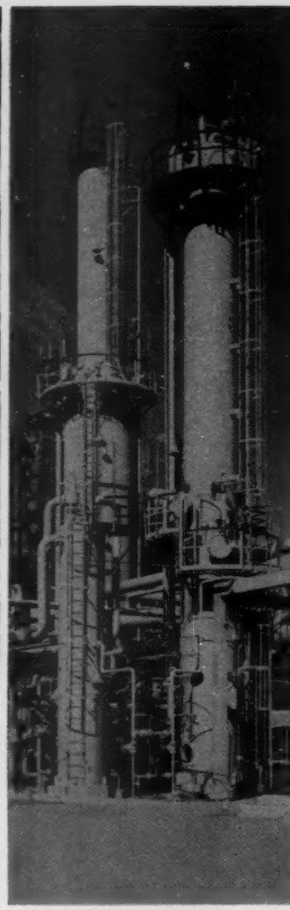
• The upside-down bottlecap that also serves as a stand (far left) seals a partly used beer, soda, or champagne bottle. When the bottle is stood bottom-up, the gases that make up the sparkle are trapped between the remaining liquid and the bottom of the bottle. When the bottle is righted for pouring, the gases go back into the beverage. National introduced the inventor and his idea to one of its biggest corporate clients and helped make licensing arrangements. Pilot production is under way.

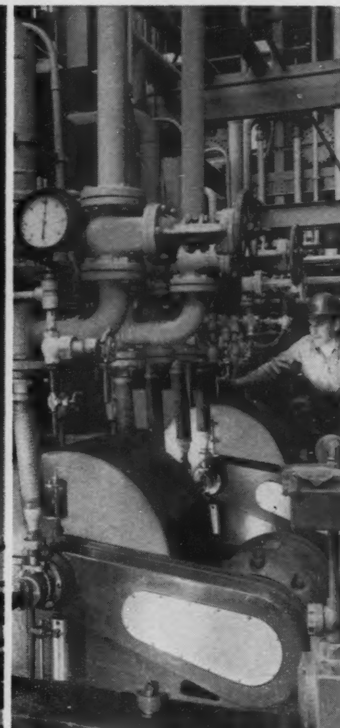
• Behind the bottlecap in the picture is an aerosol can with a top that rotates to adjust the density of the





Chemical plants, right, use many types of Dresser equipment. Roots centrifugal blowers, top, supplying combustion air for large southern carbon black plant. Clark gas driven compressors, above, compress gases and vapors in manufacturing chemicals at a Florida plant.





Podbielniak liquid-liquid contactors, similar to those shown in the refinery installation above, are used by the chemical and allied industries for solvent extraction of liquids.

CHEMICALS

-Another Growing Industry Served by Dresser

The fast-paced chemical industry – creator of today's "miracle products" – is served extensively by Dresser equipment. Powerful Clark compressors – reciprocating, centrifugal and axial flow – compress vapors and gases. Roots centrifugal and rotary positive blowers and exhausters handle air and gas in chemical processing. Pacific pumps move liquid through the maze of pipe in chemical plants throughout the nation – pipe often joined by Dresser couplings and fittings. Analog computers made by Dresser Electronics are used in chemical plant automation. Podbielniak liquid-liquid contactors have many applications in separating liquids by solvent extraction. Magcobar, another Dresser company, is itself a supplier of special chemicals for the oil, gas and other industries.

Dresser companies have long been leaders in supplying equipment and services to the world-wide chemical industry. While retaining this leadership, the Dresser team has served other industries – oil, gas, power, electronics, and defense – for many years with their specialized yet diversified capabilities.

Clark Bros. — **compressors, heavy-duty engines, gas turbines**
Dresser Electronics/SIE Division — **electronic process control equipment**
Dresser Manufacturing — **couplings and fittings**
Magnet Cove — **clays and chemicals**
Pacific Pumps — **loading and process pumps**
Podbielniak — **liquid-liquid contactors, laboratory fractional distillation apparatus**
Roots-Connersville — **blowers, exhausters, centrifugal compressors**

DRESSER INDUSTRIES, INC.
EQUIPMENT AND TECHNICAL SERVICES | CHEMICAL ELECTRONIC INDUSTRIAL GAS • OIL

REPUBLIC BANK BUILDING, DALLAS, TEXAS

WHATEVER YOUR INDUSTRY, LET THE DRESSER TEAM SERVE YOU

. . . more than 50 companies replied that they owned idle patents that might be useful to other companies . . .

(STORY on page 96)

spray. The basic patent was developed by the same company that bought the bottlecap, but it was lying dormant in the company's files for lack of production facilities. National found out that some leading paint companies would like to use such a can for their do-it-yourself products, and it took the idea to Valve Corp. of America. VCA has built test models, and licensing is being worked out.

• The metal spheres and model rockets were used by a Navy scientist, Capt. H C. Dudley, to illustrate what he claims is a new principle for aiding rocket flight. Dudley says that if the hull of the rocket is electrically charged, it will get an extra boost from the electrical field that surrounds the earth at high altitudes. He got no encouragement from the Navy or from companies that he approached, but National has been able at least to get him a serious hearing from Thiokol Chemical Corp., one of its clients and a major factor in rocket motor research.

• In front of Pollak and Feldman in the picture is a "talking book," whose pages have text on one side and strips of magnetic tape on the other. A unit the size of a cake of soap contains a recording head, a transistor circuit, and an earphone. When it is run by hand along one of the strips of tape, sounds are produced. On a four-week option, a major publishing house is testing the idea for dictionaries, encyclopedias, and foreign language texts.

• **Idle Riches**—In almost every company that's active in research and development, says Feldman, engineers are bound to hit on ideas for products and processes that are commercially feasible but are out of the mainstream of the company's own business. Usually, the company acquires the patents in such cases and then allows them to lie idle in its files.

This is where National steps in. Just because it's not the right product or process for the company that developed it, says Feldman, doesn't mean it wouldn't be valuable to another company. Such patents are National's most important source of marketable technology.

To confirm its belief in the buried treasures in patent files, National sent questionnaires a few months ago to 532 top industrial corporations, asking (1) if they had received any patents in the past five years on developments not directly related to their business, (2) if they would be willing to license them, and (3) if they would be interested in anyone else's idle patents.

Answers came back from 106 companies that have combined annual sales of more than $31-billion. About half of them said they owned idle patents that might be useful to other companies; most of these were willing to sell licenses. More than half said they might make use of patents that are owned by other companies. So Feldman and Pollak can see plenty of business for their company.

• **A Discovery**—The two lawyers, who were busy with civil practice, hit upon the idea of National Patent Development Corp. in late 1958 when they heard about a new basic resin plasticizer, developed by a company that wasn't sure about its commercial possibilities.

From what they knew of the product and of industry, Feldman and Pollak thought the new resin might serve as a superior base material in the manufacture of lipstick. They couldn't raise enough money to buy the rights directly, so they offered to find the manufacturer a licensee. They brought in a major cosmetics manufacturer, and negotiations began.

However, Feldman and Pollak found themselves out in the cold—each company told them to go to the other for their fee. As it turned out, the deal fell through, anyway. But the experience started the two men to thinking about just what role they were attempting to play—attorneys, finders, agents, or brokers? They realized that the definition of their function had a great bearing on which party should pay them a fee.

• **Doing Something About It**—They decided that promoting patent exchanges between companies could be a lucrative business if the ambiguities could be eliminated. So they agreed to form a corporation that could act, under contract, as a middleman.

Just about this time, they met the third man they needed to round out their experience—Jess Larson. Larson is also a lawyer, but he had wide experience in government service, including General Services Administrator, War Assets Administrator, and brigadier general in the Air Force Reserve. He had seen for himself the untapped wealth in patents that weren't being developed into commercial uses.

The three men formed the company, and it wasn't long before their clients included corporations like Chance Vought Corp., S. C. Johnson & Son, Inc., Swift & Co., Dunlop Tire & Rubber Corp., and Thiokol Chemical Corp. **END**

ECONOMICS

One Forecaster Who Was Right

Business economists looking back on the years between World War II and the 1957-58 recession often view them as salad days—for the economy and for the economists. During that stretch, the business economists were popular with their bosses, their forecasts usually contained good news and were quite often accurate.

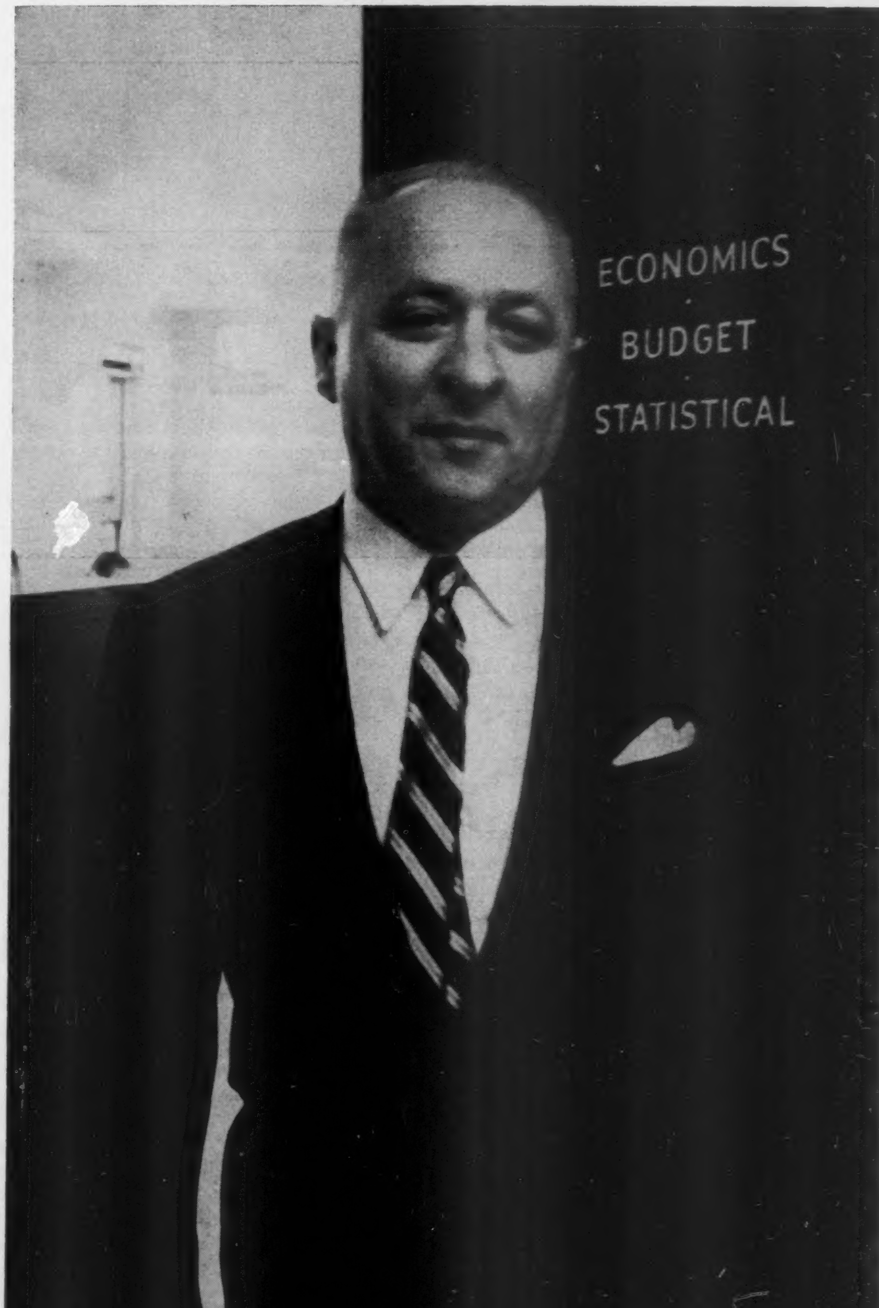
Since the end of the 1957-58 recession, times have been harder for the business economists. First the great steel strike upset their predictions for 1959. Then, once the strike was ended, the widespread prediction of a strong upswing through 1960 overshot the mark by a wide margin.

These over-optimistic predictions were blamed for contributing to the boom psychology that led to excessive inventories by midyear, with the resultant downturn in the economy. By the end of the year, some company presidents even questioned whether their economic departments were worth their salt.

• **No Complaints**—One company, though, had no cause for complaint. Allied Chemical Corp.'s chief economist, Avram Kisselgoff (picture), had proved immune to the "soaring 60s" optimism. For Kisselgoff, 1960 was "just another year." His quarterly report on the business outlook, issued in December, 1959, warned that "there is a lack of evidence of strong expansionary forces in the economy." He foresaw the strong first-quarter inventory surge, and rightly predicted the subsequent sharp slowdown. For 1960 as a whole, he predicted that gross national product would be only 6% higher than the year before. As forecasts go, this came very close; 1960's GNP of $503.2-billion actually topped 1959 by about 5%.

It was scarcely a fluke that Kisselgoff's prediction for 1960 differed from those of most company economists. His background, training, and methods of forecasting also differ from the overwhelming majority of them.

As for economic forecasting in general, Kisselgoff thinks it is going to become much tougher because of the slowing down of the U.S. economy since the 1957-58 recession. He thinks that if companies are to get accurate forecasts, they're going to have to get their economists to sharpen up their forecasting methods, which became sloppy in the "easy" decade and a half that followed World War II. Central to Kisselgoff's reform program is the need for a drive to raise the profes-



AVRAM KISSELGOFF, chief economist for Allied Chemical, has been forecasting the economy on the nose since 1958. He credits his sophisticated training.

KISSELGOFF (left) discusses the outlook for steel, a major customer, with Allied's Frank Linton. The economist makes quarterly reports on five fields.

sional standards of the business economists—which he thinks have been showing signs of deterioration.

I. A Genuine Long-Hair

The woods are increasingly full of business economists, with something like 1,500 today compared to a mere 100 in 1939. Among the handful of them who are really close to the seats of power in major corporations, Kisselgoff is unusual—a genuine long-hair much admired in academic circles. He is also, he believes, the only practicing econometrician now serving as chief economist of a company.

The econometrician differs from his brother economists in that he does his forecasting by setting up elaborate models of the field to be examined, seeking to include all major pertinent factors, so that the completed model will produce its own answers by the solving of equations, somewhat as a computer evolves its answers. The other economists are content with much simpler models and arrive at their results almost "impressionistically."

In a sense, the econometrician does his heaviest thinking in setting up his model, while other economists do their deepest brain work in producing answers from relatively meager models.

At Yale's Cowles Foundation, fountainhead of U.S. econometric studies, a staff aide paid this tribute to Kisselgoff's standing in the lodge: "His contributions have been important and some of them are famous."

• **Credit Study—**Best known is his study of consumer installment credit, in which he used "simultaneous estimation of parameters," a very advanced technique for measuring and predicting the interaction of the most important causes of an economic development. Kisselgoff found that current income and downpayment requirements were the critical factors influencing demand for installment credit, not interest rates. He also devised a formula that forecast installment credit demands with tolerable accuracy.

In his work at Allied Chemical, Kisselgoff does not deliver himself to econometric models in his forecasts for the whole economy or for its major sections. But he says that the discipline of his work on formal analysis has sharpened him greatly for his business work. With the structure of a problem in his head, he can think through to his forecast in a more rigorous and orderly way.

• **A Natural—**These sturdy methods make Kisselgoff a natural for Allied Chemical, whose annual sales—$765.8-million last year—are in basic chemicals where sales fluctuate with the state of general business. Actually, the company is trying to expand into new products with a more constant sales potential, but meanwhile, according to Vice-Pres.-Comptroller Frank L. Linton, Kisselgoff's forecasts "play an important role in laying the groundwork for the company's decisions."

All Kisselgoff's forecasts are stated in precise numerical terms, with enough detail on trends for "maximum value for corporate planning." Each quarter, he turns out detailed studies on steel, autos, construction, textiles, and paper—Allied's five most important markets. Right now he is predicting that "the steel industry will turn out approximately 90-million tons in 1961, a decrease of 9% from 1960." His auto forecast: sales of 5.1-million domestically produced units, or 17% below 1960.

II. Long Way to Go

Kisselgoff says he does not use formal econometric methods at Allied because the art is still in "an experimental stage." He says the econometric models now used to forecast GNP are "too aggregative." That is, they lump too many diverse decisions into too few catchall categories, and then try to explain them too simply.

Not even the famous econometric model at the University of Michigan—used to forecast GNP broken down into its major components—has cracked the problem of an over-all formula to forecast capital spending. The formulas, apparently, are driven haywire by special factors affecting investment in particular industries.

Despite the difficulties, Kisselgoff feels that econometric models are "potentially the most promising tool for scientific forecasting." Before they can come into their own, he thinks, they will have to be adjusted to handle far more detailed information. In the case of capital spending, Kisselgoff thinks that a separate econometric explanation must—and will—be found for each important industry. Other econometricians agree, pointing to such "reasonably successful" models as the one produced for the electric utilities industry by Kisselgoff himself, in association with Carnegie Tech's Franco Modigliani.

• **Quest for Accuracy—**Kisselgoff is hard at work to get more realism into economic forecasts. He sits on a Social Science Research Council committee, chaired by the University of Pennsylvania's Lawrence R. Klein, which is seeking ways to improve econometric models.

One Cowles Foundation economist guesses that this commitee will recommend that all U.S. econometric forecasting resources be concentrated in a central agency to be sponsored by the federal government. He agrees with Kisselgoff that more detailed econometric models are needed, and feels that they would be too costly for individual companies, universities, and research foundations. As a likely pattern for a government agency, this economist suggests the Netherlands Central Planning Bureau, which has compiled an enviable econometric record under Jan Tinbergen, famed pioneer in mathematical methods of forecasting.

Some private consultants, with one foot already in the business of building econometric models, disagree with the Cowles Foundation man on the cost factor. Prof. Paul W. Cherington, chairman of United Research, Inc., sees no reason why a private consultant couldn't set up a large-scale model that could be used by many major companies without undue financial strain.

• **Work Goes On—**No such econometric model for general forecasts for the U.S.—demonstrably superior to other techniques—has yet been built. Yet business economists must keep on producing forecasts for the immediate future. What's more, says Kisselgoff, the job is much tougher than before the 1957-58 recession.

He argues that in earlier postwar years, "all that a forecaster needed was

an optimistic bias." Kisselgoff's own forecasting record during this earlier period sometimes erred on the pessimistic side; some of his fellow business forecasters accused him of having a "bear bias." He, in turn, accuses them of sometimes having been "right for the wrong reasons." From 1945 to 1957, he says, "those who would have predicted each year that economic activity would rise in the following year would have been wrong only two out of 13 times." He adds that "since these two years were characterized by only mild contractions in business, the errors could be interpreted as rather small."

The strong upward thrusts of the economy, the result of the pent-up demands of the war period on top of the normal forces making for growth, had been enough to make the forecasters look good. Kisselgoff says that economists in those years could forecast successfully simply by penciling extensions on their charts of the upward trends in the major components of GNP—consumption, investment, and government spending.

• Getting Tougher—Now that these pent-up demands have spent themselves, he says, the trend in business activity depends on "the delicate balance of events in the various parts of the economy." He feels that from now on the successful forecaster will need more information as well as a good grasp of economic theory. That's because the forecasting problem is now compounded by the vulnerability of the economy to "extended shocks" that it could have shaken off in earlier years. The lingering effects of the 1959 steel strike—and the way it upset forecasts for 1960—are his pet example.

He thinks that the business economist must now "follow systematically the new discoveries of theoretical and empirical research." A good way to do it, he says, is to maintain "serious academic contacts" after the economist has left the campus.

Kisselgoff himself stays in touch with academic economists. Thus his friends say that he was consulted by the president of the American Economic Assn., MIT's Paul A. Samuelson, while Samuelson was drawing up the report recommending basic economic policies for the first year of the Kennedy Administration.

Kisselgoff deplores a trend he sees for business economists to lose touch with the academic community, culminating with the creation of the National Assn. of Business Economists (BW—Nov.14 '59,p128). He opposed the setting up of this organization, but joined it nevertheless. He hopes that NABE won't make it easier for business economists to keep academic contacts to a minimum, with resultant neglect of professional responsibilities. **END**

In Finance

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Three-Way Financing Deal Is Worked Out For Lease of Jets to Northeast Airlines

A new twist was added to the already involved airline financing picture this week as the result of a buy-and-lease deal for six of General Dynamic Corp.'s Convair 880 jets between General Dynamics, Nelco, Inc., and Northeast Airlines, Inc.

Nelco was specifically formed for the deal by Equilease Corp., a subsidiary of Electric Autolite Co., and by Aviation Financial Services, Inc., which is 60%-owned by Smith, Barney & Co., the Wall Street investment house.

It bought from General Dynamics the lease and title to the Northeast jets.

Under the agreement, Nelco paid General Dynamics the residual value of the seven-year, 7% lease—somewhere in the neighborhood of $20-million—freeing the funds General Dynamics had tied up in carrying the planes. In return, **General Dynamics guaranteed the lease if Northeast should ever default in its payments.**

On the strength of the guarantee, **Nelco arranged 100% debt financing from a group of banks and insurance companies headed by Chase Manhattan Bank.** Nelco is paying substantial placement and management fees to Equilease and Aviation Financial Services, which also will get a share in Nelco's half interest in the aircraft at the end of the lease. The banks and insurance lenders will own the other half.

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Equitable Life Will Help Finance Condominium Project in Puerto Rico

Condominium financing—a European style of cooperative real estate project in which purchasers get title to either an individual apartment or an office, rather than just a share in the building corporation—got a big boost this week. The Equitable Life Assurance Society of the United States announced that it would enter the field through a 22-story condominium apartment project in San Juan, Puerto Rico.

Condominiums have been popular in Latin America, including Puerto Rico, but Equitable's participation marks the first time a U.S. life insurance company has undertaken this type of financing there. **Equitable has agreed to take up to $1.7-million worth of individual apartment mortgages in the $2.5-million project.** Rates will be comparable to those for general home mortgages in San Juan at the time the loans are made. Other mortgage lenders are expected to follow suit. The Puerto Rican market for housing is still booming, and mortgages currently carry a 7%-to-7½% rate, which is much better than U.S. mortgage yields.

Some savings and loan officials are talking of promoting condominiums here in the U.S. as a possible spur to borrowing. First Federal Savings & Loan Assn. of New York has a pilot program in the works, and others also are considering using the device.

But an Equitable official feels that use of condominiums here will be limited, for the time being at least.

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MORE NEWS ABOUT FINANCE ON:

• P. 110—London merchant banker seeks acceptances on Wall Street.

Impact of Lower Interest Rates Shows Up in Banks' Earnings Reports

Bank earnings are feeling the pinch of lower interest rates—and higher operating costs. First-quarter reports of the large New York City banks reveal that **the effects of the cut in the prime rate from 5% to 4½% in August are showing as older loans move off the books.**

Chase Manhattan Bank reports net operating earnings of $1.22 a share compared to $1.29 in the first three months of 1960. First National City Bank's first-quarter profits dipped to $1.37 a share, compared to $1.52 a year ago. Morgan Guaranty Trust Co. earned $1.59 a share against $1.89. One exception: Chemical Bank New York Trust Co., which showed record quarterly profits of $1.25 a share, an increase over the $1.15 earned in the 1960 quarter when profits were penalized by expenses connected with the Chemical-New York Trust merger.

Bankers expect the downtrend in earnings to be temporary, however, and they figure that for the year as a whole most banks should be able to better record 1960 profits. For one thing, short-term rates are now remaining relatively steady. And the increased reserves provided by Federal Reserve policy permit them to increase loans and investments.

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Transamerica Plans to Diversify By Reacquiring Pacific Finance

Transamerica Corp., the onetime bank holding company that chose to get out of the banking business in 1958 to comply with the Bank Holding Company Act, made a significant move this week to strengthen its position in other financial fields. Transamerica, now primarily an insurance holding company, announced plans to reacquire Pacific Finance Corp., the nation's fifth largest sales finance company.

Transamerica will issue 58 shares of a new 4½% convertible preferred stock for each 100 shares of Pacific common. The preferred will be convertible into 2.84 shares of Transamerica common, or about 165 Transamerica shares for each 100 shares of Pacific.

Pacific Finance had been part of the Transamerica empire once before. In 1942, Transamerica and a subsidiary, Occidental Life Insurance Co. of California, had acquired control of the finance company. But a year later they sold their interest to Lockheed Aircraft Corp., which still owns some 22% of Pacific Finance stock.

London Bridgehead on Wall St.

Britain's Hambros Bank, Ltd., buys into private New York bank to gain a foothold in the U. S. banker's acceptance market and thus broaden its world trade financing.

London's merchant banks are dignified, astute, and very British. They are wealthy, but their success is not just a matter of money. As one London banker put it: "To be a merchant banker you have to have style."

Last week, this style of banking came to New York. Hambros Bank Ltd., one of the largest of the merchant banks, which is headed by John Henry Hambro, invested $5-million in Laidlaw & Co., the smaller of the two remaining private banks in New York. A private bank is a partnership (rather than a corporation) that does a regular commercial banking business. Both Laidlaw and its larger private banking competitor, Brown Bros., Harriman & Co., are also members of the New York Stock Exchange (BW—Sep.13'58,p56).

• **Europeans Invade**—Hambros' investment, which is more than double Laidlaw's present capital, is the second major European move into Wall Street in recent years. Last year, the Banque de Paris et de Pays Bas, a leading French merchant banker, invested some $12-million into Paribas Corp., which is rapidly emerging as a major underwriter and distributor of corporate and municipal securities in New York.

Hambros will be a limited partner in Laidlaw, which means that the Laidlaw family will retain at neast nominal voting control of the firm. But Hambros will receive 65% of Laidlaw's banking profits and will take charge of the operation. Laidlaw will run its sizable stock brokerage business on an independent basis.

Against the background of the multibillion-dollar Wall Street banks, Hambros' $5-million investment in tiny Laidlaw (whose total deposits are only $12-million) doesn't seem too significant. But there are more important considerations behind its trans-Atlantic venture:

• **Motive**—Hambros' specialty—among its many diverse commercial and investment banking activities—is the financing of international trade through banker's acceptances. Its purpose in buying into Laidlaw is clearly to get a foothold in the U.S. acceptance market. And the banker's acceptance is becoming increasingly important in the financing of U.S. foreign trade.

The banker's acceptance first flourished in the U.S. in the 1920s, and by the end of 1929, the total amount of acceptances outstanding rose to $1.7-billion. During the 1930s, however, the use of acceptances declined sharply, and they all but disappeared during World War II.

In recent years there has been a revival of interest in acceptance paper. Today, the total of acceptances outstanding is at a new high of over $2-billion, though the proportion of U.S. trade (both domestic and foreign) financed through acceptances is well under the 1929 level.

• **Classical Device**—The banker's acceptance is a classical 19th-Century financing device. It's highly complex, and to draw one up you need a whole range of banking documents—letters of credit, bills of exchange, trust receipts, and the like.

But what it boils down to is this: In any business transaction a credit-worthy purchaser, for a fee, can get a bank to provide short-term financing for the deal by using its own name. The bank, for example, "accepts" a 90-day draft drawn by the seller on the purchaser's account. The draft then becomes a direct obligation of the bank, and it can be traded in the money market as an almost riskless short-term investment.

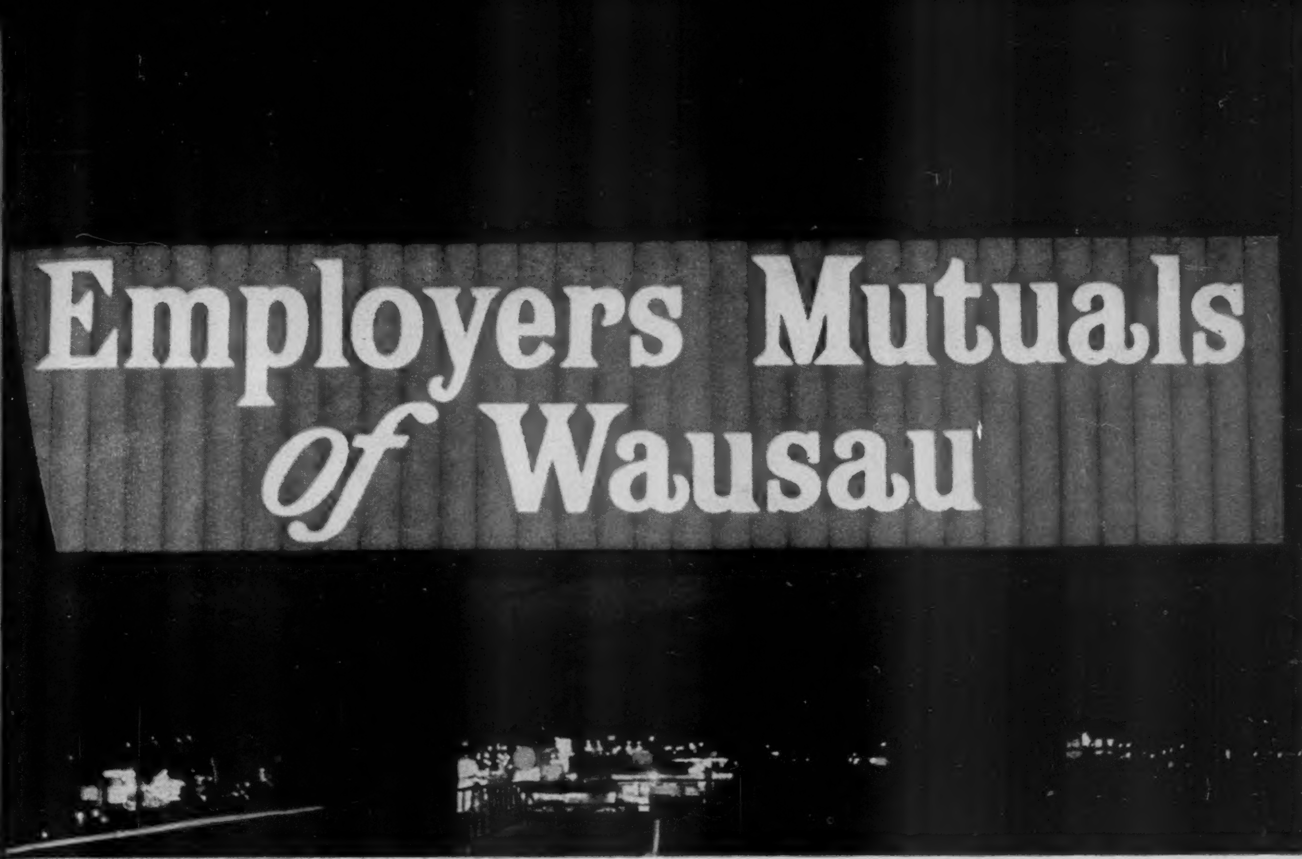
• **Advantages**—There are many advantages in this kind of a deal:

• The seller can forget about credit investigation and credit risk. This is particularly important if you're selling in foreign countries, or to companies that you don't know well.

• The buyer gets financing at close tc the prime lending rate, which is much less costly than using conventional trade credit.

• The bank gets a nice fee for the accepting service—usually about 1½% of the face amount—and, in addition, it doesn't have to put up any cash, which is important when money is tight. The buyer has an obligation to pay the amount of the acceptance to the bank before it comes due.

With acceptances growing in popularity, Hambros believes its investment in Laidlaw will broaden its trade financing. As John Hambro puts it: "The pound sterling is used to finance half the commerce of the world; the dollar cares for the other half. To become a truly international bank, financing world trade, you must have at your disposal both currencies. This is what our New York venture means—that we can now place both currencies at the disposal of our customers." END



Sign manufactured by Everbrite Electric Signs, Inc., Milwaukee 12, Wis., for Employers Mutuals of Wausau offices in Milwaukee. Background and letters made from sheet extruded by Plaskolite, Inc., Columbus 15, Ohio, from a special weather-resistant formulation of Tenite Butyrate plastic.

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BUTYRATE
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PRODUCTION

Small Suppliers Jam GE Subcontract Show

A small army of about 1,400 small businessmen crowded the ballroom floor of Chicago's Conrad Hilton last week at a one-day "procurement symposium" (pictures), hoping to get a crack at $300-million in subcontracts that General Electric Co.'s Flight Propulsion Div. expects to let this year.

The businessmen, mostly from the Chicago area and eight Midwestern states, looked over 700 jet engine parts on display and jotted down the numbers of many they thought their shops could make. They left for home with some hopes of wangling business out of the affair, but also some doubts.

• **Skeptics and Optimists**—A number of suppliers were downright skeptical—like the Muskegon, Mich., machine and toolmaker who said the meeting "didn't amount to a hill of beans." Others were hopeful but cautious, among them W. F. Kastning, owner of a 25-man tool and die machine shop, Tula Machine & Mfg. Co., in Chicago.

Kastning felt the intent and purpose of the meeting were good, but was disappointed that more critical and complex machined parts weren't displayed. "It probably will take three to six months before any work will filter down to companies like ours," he said.

Nevertheless, Kastning plans to ask for data on 20 pieces. GE will supply drawings and specifications to those who ask for them, and says potential suppliers will get a chance to quote within two weeks.

Most of the visitors echoed the optimism—or hunger for work—of Eugene E. Johnson, partner in Johnson-Mark Tool & Mfg. Co., Rockford, Ill. Johnson carried off a sheet of parts numbers and an armload of materials, saying "I sure could use some business. All seven men in our shop are laid off and only my partner and I are working. Things are pretty rough."

J. M. Muchnikoff, manager of Arnav Aircraft Associates, Inc., said he would ask GE for drawings and specs on 128 parts so that his company, already a GE supplier, could make bids. Muchnikoff flew all the way from El Segundo, Calif., in order to see all the 700 parts laid out at one time.

• **Aim**—The greatest show of optimism came from the sponsors of the "subcontract supermarket"—General Electric and the federal Small Business Administration. In cooperation with the SBA, GE had invited 2,000 small manufacturers; the 1,400 who turned up topped its expectations by 50%. They represented 1,000 companies.

For GE, the aim was to find new competitive suppliers—which cuts GE's costs—and to increase small business participation in procurement contracts, according to R. J. McElligott, small business administrator for the Flight Propulsion Div.'s large Jet Engine Dept. SBA hopes by this means to increase the flow of government contracts to small businesses.

Besides 40 men from GE at the symposium, Air Force and Navy procurement officers and representatives of the Dept. of Commerce were on hand to instruct the visiting businessmen in the procedures and niceties of securing government contracts. The hopeful small manufacturers got a welcome from Chicago's Mayor Richard J. Daley.

• **Prospects**—GE's McElligott said the affair cost the company only $1,500. Direct results are hard to measure, but he expects fully half of the visitors to ask for a chance to bid, and thinks GE will in this way broaden appreciably its base of competitive suppliers.

GE claims to have pioneered the idea with a meeting in Toronto last May. A Cleveland symposium last October drew nearly 400 companies; of these, 75 asked GE for specifications. They bid on materials aggregating about $450,000, and so far have been awarded $50,000 in contracts, McElligott says.

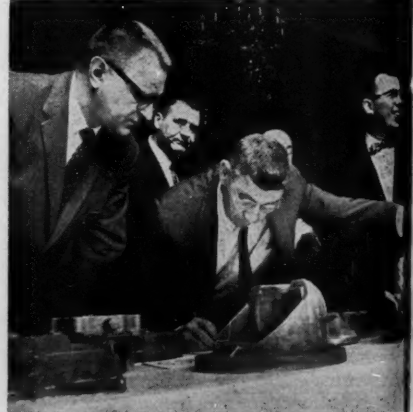
Deputy Administrator Irving Maness of the SBA, expressing the hope that other big companies would follow the same procedure, predicated "great dividends" from the Chicago affair. From 1953 through last December, he said, SBA programs helped small companies win 105,559 government contracts totaling about $4-billion. But the small business share of total military purchases of goods and services has been declining from 25.3% in 1954 to a low of 16.1% in fiscal year 1960. For that reason, he saw the Chicago meeting as a "great forward step" to step up the flow of contracts to small business.

Rear Adm. E. F. Metzger, assistant chief for contracts in the Bureau of Naval Weapons, summed up the government's attitude. "If only two good subcontractors come out of this symposium," he said, "it will be to Uncle Sam's benefit."

Small businessmen flock in . . .

Look at 700 jet engine parts . . .

Pick out ones they can make . . .



Take notes to ask for specs . . .

. . . At GE Chicago show to seek new competitive suppliers for $300-million in subcontracts.

TRANSPORTATION

Fight Over Intercoastal Trade

BREAK-BULK method of handling cargo on intercoastal ships is slow, expensive.

CONTAINERIZATION cuts costs, should make coast-to-coast shipping pay.

Right now intercoastal shipping is a pretty forlorn affair. In fact, it has practically disappeared. But a former trucker, Malcom P. McLean, is barging into the industry, and the betting is that he'll probably win out over old-line shipping companies.

In sizing up intercoastal trade—the shipment of goods between East and West coasts—the first question is: Does it fill an essential niche in the over-all scheme of things?

Transportation facilities are something the nation has too much of; there are far more ways to haul goods than goods to haul. If a missallocation of capital already exists, therefore, should still more money be spent on intercoastal vessels?

John Clark of the management consultant firm Arthur D. Little, Inc., has made an intensive study of this and concluded that intercoastal shipping is essential—if it can provide lowest-cost service. Its present sorry state stems chiefly from the fact that it can't.

• **Logical Answer**—The industry still uses the standard "break-bulk" method of loading and unloading ships—that is, it still manhandles the cargo into holds with cargo nets. According to Edgar F. Luckenbach, Jr., president of Luckenbach Steamship Co., Inc., last of the old-line common carriers in the trade, this costs an average of $24 a ton. The use of containers or demountable truck bodies, on the other hand, would cut handling costs to $4 a ton.

Unquestionably, therefore, container ships are the answer. Not only would costs go down but service also would improve. Luckenbach reports its break-bulk service necessitated 30 days of sea-time and 30 days in port. A container ship along the lines proposed by Luckenbach would spend 28 days at sea and seven days in port.

Luckenbach is out of the intercoastal business now; it projected a $2-million loss for the year if it continued break-bulk shipping and decided to "redeploy" its ships elsewhere. However, if it carried in containers what it carried break-bulk in its last year—approximately 670,000 tons—it would have been considerably above the break-even point, says Clark. With better and faster service, no pilferage, and the various other advantages of containerization, he estimates it easily could have carried 900,000 tons a year within two or three years.

• **Money Problem**—If the answer is so obvious, then, why hasn't it been followed? The rock on which everyone has foundered so far is lack of money.

The millions of dollars needed to build these vessels must be borrowed, and neither Luckenbach nor American-Hawaiian Steamship Co., another pioneer in the business, could arrange financing without government help.

• **Government Position**—The only help the government can supply to the domestic shipping industry under the Maritime Act of 1936 is a mortgage guarantee for 87½% of the cost of the vessels. The crux of the matter is that the Maritime Board is willing to provide a guarantee to only one company—having decided there is business enough to support only one—but it hasn't announced yet which company it will back.

• **The Luckenbach Plan**—Luckenbach claimed, among other things, a moral right to the assistance because it had maintained service despite mounting losses. Its proposals call for five container ships costing $7-million each. They would utilize existing sterns and propulsion machinery from sundry tankers and baby aircraft carriers the company either owned or was negotiating to buy. The remainder of each vessel was to have been new.

The company believed that relatively low-cost vessels were essential to the early days of container-ship operation. Later, when these had been depreciated and the "bugs" of the operation had been discovered and removed, the company planned to replace the ships with bigger, faster vessels.

• **Competing Scheme**—Competing for the government mortgage guarantee is American-Hawaiian, which discontinued operations in 1953. Its plans call for three 24-knot ships costing $21-million each, capable of operating on a 10-day turnaround—nine days at sea and one in port—serving only New York and Los Angeles.

Such ships would match or even beat all but the most expedited rail service, says Samuel H. Moerman, president, and rates would be 10% less. Using these figures, Moerman estimates that the potential market would be as high as 4.8-million tons a year.

• **Official Indecision**—These two widely differing schemes have been before the Maritime Board since last September. According to Luckenbach, the board had agreed to announce its decision by Feb. 15. This was a key date for the company since it had an expiring option on a tanker it wouldn't need if the decision favored American-Hawaiian.

Feb. 15 came and went, however, without a decision. Luckenbach thereupon announced it could no longer sus-

tain losses from intercoastal service. Its last intercoastal sailing left San Francisco Mar. 22.

Since then most employees have been laid off and terminals have been closed. Most of the ships that had been in the service as well as those standing by for conversion now have been scattered to overseas sailings. Even if the Maritime Board should now decide in favor of guaranteeing the Luckenbach mortgages, it is unlikely the company could reassemble the necessary components.

• **11th-Hour Proposal**—What happened to the Maritime Board's decision? Perhaps the key factor that delayed it beyond the date so important to Luckenbach was an 11th-hour proposal submitted by McLean.

McLean is president of McLean Industries, Inc., a company that includes two wholly owned subsidiaries, Sea-Land Service, Inc., and Waterman Steamship Corp. Sea-Land operates six container-ships in the coastal trade: three between New York and San Juan, one between New York and Jacksonville, and two between New York and Houston. Last year it lost approximately $2-million due in part to nonrecurring expenses. In the first quarter this year, it reports being "well in the black." Waterman operates an unsubsidized fleet of 27 American flag vessels on worldwide trade routes.

McLean's first plan called for a through rate agreement between Sea-Land and one of two railroads. Containers would have been shipped by water from New York to Houston, and by rail from Houston to the West Coast. This scheme would have used existing vessels and therefore would not have required government mortgage insurance. It put the Maritime Board in something of a spot.

If there is business enough for only one company, and one company announces it will provide the service without a guaranteed loan, the government cannot very well guarantee a loan for a competitor. If it did and the uninsured company were driven out of business, the anguished wails from Congress would be loud and long.

The Maritime Board decided to postpone making a decision.

Since then, McLean's joint water-rail plan has fallen through; the railroads wanted no part of it—at least with the division of rates McLean proposed. So he has come up with a new plan.

• **New Service**—Starting Saturday, Apr. 16, he will offer an intercoastal service eastbound only. Waterman's SS Fairport inbound from Tokyo will leave Portland, Ore., bound for San Francisco, Stockton, Los Angeles, San Juan, and New York. On Apr. 28, Waterman's SS Choctaw will depart from San Francisco eastbound.

Although these are the only two sailings to have been announced so far, McLean hopes to be able to arrange Waterman transpacific schedules in such a way that ships from the Orient will be able to provide an eastbound intercoastal sailing every 10 to 15 days.

These ships will be relatively slow and will continue to use break-bulk cargo handling methods. The service, however, is intended only as an interim device to maintain continuity for the shippers of the trade's all-important commodity, canned goods.

• **Future Plans**—McLean has told the Maritime Board he will now convert five freighters to container-ships capable of carrying 476 containers each. He will apply for a government mortgage guarantee on these, but if he doesn't get it, he says he will arrange private financing. He proposes to start up the intercoastal shipping business again using containerships "no matter what." The first of the weekly sailings is planned for June, 1962.

Essentially, the board is still in the same dilemma. It must consider Sea-Land's proposals as well as Luckenbach's and American-Hawaiian's. If it backs one of the latter two, it is threatened with having two competitors fighting over business enough for one.

Perhaps the vital question is whether McLean can really arrange private financing. "I have every reason to believe he'll do it," says one shipping company executive. "With Waterman's 27 ships to maintain, Sea-Land's six, and the five to be built, this represents so much business for a shipyard, I'm sure one will be willing to finance him."

• **From Trucks to Ships**—McLean, who is now 47, got his start in transportation during his teens. He drove a dump truck for the WPA. Later, with his own truck, he hauled produce from North Carolina to New York and petroleum products back. From this he built up McLean Trucking Co. with routes throughout most of the eastern half of the U.S.

In 1955 he sold the trucking company and bought Pan-Atlantic Steamship Co., a wholly owned subsidiary of Waterman, engaged in coastal shipping. His early efforts at contanerization involved placing 60 truck trailers on the decks of World War II tankers. Full container-ship service was started in October, 1957.

Since then Sea-Land, the successor company to Pan-Atlantic, has outlasted almost everyone in the industry. The only remaining independent common carrier in either coastal or intercoastal shipping is Seatrain Lines, Inc., whose specialty is overwater hauling of railroad cars between New York and Savannah, New Orleans, and Texas City, though it is getting more and more into containers. END

In Business Abroad

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U. S. Machinery Exports Soared in 1960, But Shipments Within Hemisphere Declined

U. S. exports of industrial machinery in 1960 totaled about $4.5-billion, some $600-million more than the year before. This is the highest dollar volume in the nation's history, exceeding the previous record high of $4.4-billion set in 1957.

The increase was confined largely to market areas outside the Western Hemisphere. **Exports to Western Europe—including machine tools, railway equipment, and tractors—rose sharply from $669.8-million in 1959 to $965.9-million in 1960.** There were also substantial increases in shipments to other areas: Asia, from $532-million in 1959 to $624.6-million last year; Oceania, mostly Australia and New Zealand, from $100.5-million to $165.7-million; and Africa, from $174.8-million to $242.4-million. Moreover, exports to Soviet bloc countries added up to $22.3-million in 1960, more than double the 1959 total of $10.8-million.

U. S. machinery exports in the Western Hemisphere, however, lagged behind shipments to other areas of the world. **Because of Canada's economic recession, exports to that country in 1960 declined by about $62.4-million.** Exports to Central America declined too, from $435.5-million in 1959 to $424-million last year, and shipments to South America showed only a slight rise from $730.7-million to $735.7-million.

• • •

CED Offers Program for Economic Progress In Latin America, Warns Against Neglect

The Committee for Economic Development (CED) this week recommended a program of economic progress for Latin America that closely parallels Pres. Kennedy's proposed Alliance for Progress (BW—Mar.18'61,p30).

In a 56-page study entitled "Cooperation for Progress in Latin America," **CED warns that failure to achieve progress will lead to bitter and ominous disappointment.** It points to the lesson of Cuba as evidence.

While it emphasizes that Latin Americans must make the major effort in promoting economic and social progress, **the CED report recommends that the U. S.:**

- Give practical support to the Act of Bogota (BW—Sept.1'60,p167).
- Give urgent attention to ways of increasing and stabilizing Latin American export earnings.
- Encourage movements toward economic integration in Latin America.
- Increase its flow of public funds for use where private investment is inadequate.
- Give more attention to inter-American agencies in carrying out a developmental program.

The CED report, which was prepared by a subcommittee headed by Thomas D. Cabot, chairman of Cabot Corp., also recommends that U. S. private investors enlarge their beneficial activities in Latin America. It further suggests that Latin American businessmen recognize their heavy responsibility in fostering economic progress in their respective countries.

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Large Petrochemical Plant To Be Built in Netherlands by Esso

Esso Nederland N. V. is planning to build a $17-million petrochemical plant near Rotterdam, Holland.

The Dutch company, a 99.9% owned subsidiary of Standard Oil Co. (New Jersey), says that the new plant will have an annual capacity of 220,000 metric tons, making it **one of the largest plants of its kind ever built and the largest in Europe.** Among the chemicals it will produce are benzene, toluene, xylenes and xylene-related products. Most of the raw materials will come from Esso Nederland's adjacent oil refinery.

Demand for the petrochemicals to be produced at Rotterdam is increasing rapidly in Europe because of their use in such fast expanding fields as plastics, synthetic fibers, resins, and insecticides.

At present, European demand for these petrochemicals far outstrips supply. Esso Nederland plans to fill the gap when the plant is fully operative, sometime in mid-1963.

• • •

British Auto Sales Pick Up Speed; Rootes Cancels Plan to Cut Production

Britain's auto industry is showing healthy signs.

Since January, when the government lengthened the payment period in installment buying from two to three years, automobile sales have picked up sharply (BW—Apr.1'61,p30). **Last month, they were up 26% over February, virtually equal to the record level reached in March, 1960.**

More good news came this week when Rootes, Ltd., one of Britain's big five auto manufacturers, announced that it had canceled plans to cut down its work force and production schedule.

At the same time, **British auto makers think that export sales, especially to the U. S., may be on the upswing.** As proof, they claim that they booked $48-million worth of orders during the International Automobile Show in New York. According to one auto maker, "This has given the entire industry a psychological shot in the arm."

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Business Abroad Briefs

Czechoslovakia's state-owned automobile producer, Skoda, is reportedly planning to set up an assembly plant for passenger cars in Austria. The idea is to take advantage of the duty-free passage of goods throughout the seven-nation European Free Trade Assn. (EFTA).

Fairfield Shipbuilding & Engineering Co., Ltd., of London, will manufacture ship propulsion equipment under a license and technical assistance agreement granted this week by Westinghouse Electric International Co.

INTERNATIONAL OUTLOOK

BUSINESS WEEK
APR. 15, 1961

A BUSINESS WEEK SERVICE

Are the U. S. and Western Europe drifting apart? Despite the NATO Alliance and the new Organization for Economic Cooperation & Development, there are many signs that they are.

On military, political, and economic matters, there are basic differences between the U. S. and its main Continental Allies, especially with France. Only with Britain are relations at all easy right now.

Once Western Europe regained its economic strength, a change in U. S.-European relations was to be expected—something closer to an equal partnership. The trouble is that with the economic revival in Europe has come a resurgence of national ambitions and power drives that make a partnership hard to achieve. There's even a revival of economic conservatism, almost of a 19th Century variety.

The problems come into clearest focus, of course, with Pres. de Gaulle of France. Some points he made this week at a press conference provide evidence of that—and of the difficulty Pres. Kennedy will have when he goes to Paris late in May:

• **In dealing with Algeria, de Gaulle referred to "foreign interference"** from Washington and Moscow, putting U. S. and Soviet interests in the Algerian situation in exactly the same class.

• **Directly opposing U. S. support for the United Nations,** he damned the U.N. in no uncertain terms, especially for its role in the Congo. More important, he suggested that the U.N. would never be worth anything until Europe could throw its weight around there as a bloc—counterbalancing the "Anglo-Saxons," the Communists, and the Afro-Asians.

• **On NATO, he insisted that the Continental members have their own nuclear weapons** (French ones) plus control over these and over conventional forces. Moreover, he repeated his old theme that NATO's interests lie beyond Europe and that they must be coordinated on a worldwide basis through a U. S.-British-French directorate.

To be sure, West Germany doesn't buy de Gaulle's views on NATO. Chancellor Adenauer made that plain in the talks he had this week in Washington with Kennedy.

But Adenauer is almost obsessed with the idea that NATO needs a nuclear deterrent of its own—something that the Eisenhower Administration proposed tentatively late last year. The German Chancellor is almost as unwilling as de Gaulle to leave the nuclear defense of Europe entirely in the hands of Washington and London. However, he is willing to wait for Kennedy's decision on this matter until the U. S. finds out whether Moscow is ready to agree to an international system of arms control.

If no U. S.-Soviet agreement is reached, and the prospects are far from good, one thing seems certain: Either the U. S. will have to go along with giving NATO a deterrent or West Germany will cooperate with France to build a Continental nuclear force.

On the economic side, there are also some important problems.

First, there's the question of France's goals in the European Economic Community. De Gaulle apparently sees EEC as the economic base from which he can build a new world power center on the Continent—under French leadership. Even if the British were prepared to join EEC, as the U. S. still urges, it is doubtful that de Gaulle would let them in.

Then there's the fact that Continental financial leaders are becoming increasingly orthodox, and tough, in their economic views. More and more they are thinking in terms of the gold standard disciplines. And some of them seem determined to force the U. S. and Britain either to go along or to see the dollar and the pound suffer the consequences.

—•—

There are rumors in London this week that next Monday's budget will include a capital gains tax—the first in British fiscal history.

Chancellor of the Exchequer Selwyn Lloyd isn't expected to make this innovation, though, except in combination with a cut in the personal surtax.

In part at least, so the speculation goes, he would use the capital gains tax to make a surtax cut politically acceptable to the Labor opposition.

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An international rescue operation to ease the financial pressure on Brazil is under way. Brazil has $600-million in government debts, interest payments, and commercial arrears coming due this year—debts it cannot pay because foreign exchange reserves have almost vanished (BW—Apr.8 '61,p78).

The rescue operation entails actions by creditor nations on three continents. The basic idea is to reschedule the debt payments.

U. S. Secy. of Treasury Dillon, in Rio de Janeiro for the second meeting of the Inter-American Development Bank, says that the U. S. is ready to help. The form and amount of U. S. aid will be discussed when Brazilian Finance Minister Mariani comes to Washington later this month.

At that time, **Brazil's European creditors also will meet in Washington** to iron out details of their assistance. Brazil's debt to European nations runs about $400-million, mostly to West Germany, France, and Italy. Washington, however, is in no mood to finance Brazil's debts to Europeans, in view of their healthy economies, and will watch this meeting closely.

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Communist China is in the deepest economic crisis of the regime's 12-year history.

Famine covers much of the country, forcing Peking authorities to march 20-million people out of industry and back to agriculture. This has caused industrial plans to go completely haywire. Chinese foreign exchange reserves have been almost wiped out by heavy purchases of wheat from Canada, Australia, and France.

Peking is believed to have called upon Moscow for massive aid—loans or deferred-payment shipments. Reports indicate, however, that Russian assistance will be meager. It has its own agricultural problems.

More important, the Russians and Chinese are divided over worldwide Communist strategy. Moscow stresses political and economic skirmishing; Peking wants to rely more on military force.

Nevertheless, China's economic difficulties are a danger to the West. The Chinese are not easily held in check. They want to increase Communist military pressure in Southeast Asia, where they think the West is on the run. And with China's domestic economy hurting, the raw material and food resources of Southeast Asia are an added temptation.

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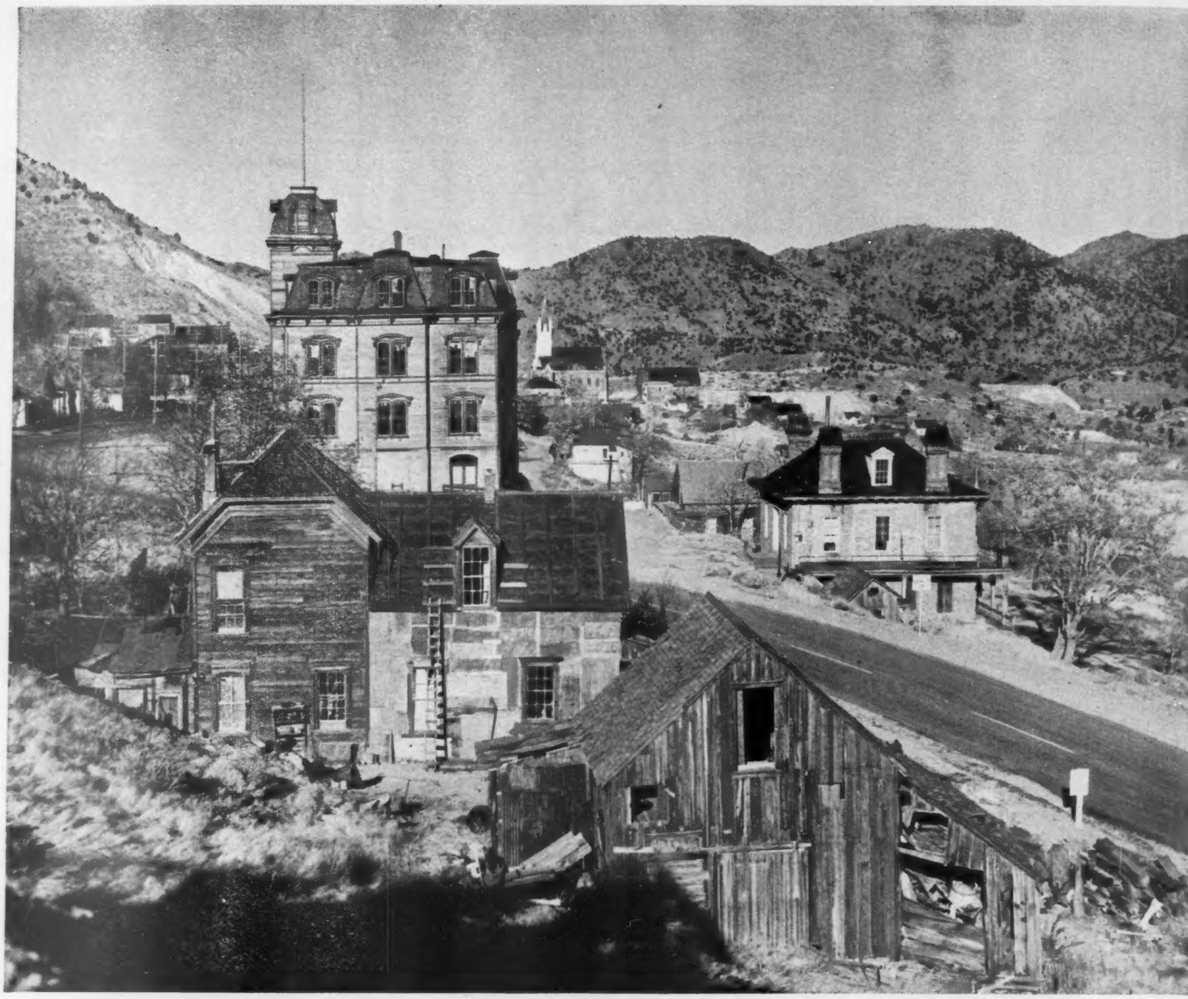

In the Markets

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MORE NEWS ABOUT THE MARKETS ON:

• P. 129—Buyers stampede into the new issues market.

• P. 132—Wall Street Talks.

Uneasy Quiet Reigns in Alleghany Battle In Wake of Monday Purchase Deadline

An uneasy quiet settled over the battle for Alleghany Corp. this week after the deadline passed Monday for purchase of shares in the regular way for delivery by Apr. 15, when the records for mailing proxies will be closed. On Monday, the stock had been the most active on the New York Stock Exchange, with a volume of 105,000 shares and a price drop from 14 to 13¾.

On Tuesday, however, the stock continued to sell off on a volume of only 44,000 shares. Few trades for "cash"—or same-day delivery—were reported.

Allan P. Kirby's forces continued their heavy buying right down to the wire, but the rival Murchison group is not conceding defeat until the final proxy count is in after the May 1 meeting.

That's because much of the stock Kirby bought reportedly came from short sales by arbitragers, who immediately covered by purchasing Alleghany preferred or warrants and converting them into common—thus increasing the over-all supply of voting common. This still could make the solicitation of proxies extremely important right up to the meeting.

Many Wall Street observers expect a new eruption in Alleghany once the record date is passed. Both sides will be able to buy common with proxy forms attached in the over-the-counter market. There could even be a tender offer for shares with proxies, at a premium over the market price.

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Sears Publishes Three-Day Rates In Commercial Paper Market

Sears Roebuck Acceptance Corp. has introduced a new rate schedule on its short-term paper, which may start some internal skirmishing in the commercial paper market. SRAC has set up separate schedules for its very short-term borrowing, starting with a three-day rate.

SRAC will pay 1⅞% for this paper, and will pay higher rates for money loaned on a longer basis. But SRAC wanted to publicize the fact that it will offer three-day paper in order to draw funds from corporations engaged in (1) repurchase agreements with government securities dealers—the agreements give the securities dealer the means to carry his inventory over the weekend —and (2) buying Treasury bills—bills bought on Monday don't have to be paid for until three days later. SRAC also will pay 2% on paper drawn for 4 to 14 days, and 2⅛% on paper for 15 to 29 days.

At present, the major finance companies—GMAC, CIT, Commercial Credit—don't publish rates of less than 30 days, although they will make special deals with favored corporate lenders. A few of them, though, have published rates for 5-to-30 day paper.

SRAC's move may force the industry giants to break down their paper into shorter-term categories. But it is doubtful whether they will go so far as to offer three-day paper. For one thing, it could hurt their banking relationships, by drawing idle corporate cash away from the banks.

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Volkswagen Stock Prices Soar After First Public Trading

The start of public trading in newly issued Volkswagen shares touched off a scramble on both sides of the Atlantic. On Apr. 7, the first day the shares were publicly traded, VW stock jumped from its initial offering price of $87.50 a share to well over $200.

As non-German buyers—mainly Swiss and Americans —bid for the shares, **wide differentials appeared among quotes in world markets, and arbitragers added to the gyrations.** For instance, last Friday VW shares closed at about $175 in Dusseldorf and Hamburg, about $193 in Munich and Frankfurt, and around $207 in London and New York.

The buying surge was magnified by the relatively thin supply of VW shares. Many of the 1.5-million subscribers to the 3.6-million shares sold in the initial offering were permitted to buy the stock at discounts of from 10% to 25% below the $87.50 offering price. Because these buyers must pay back the discount if they sell the shares before two years are up, many hesitated to sell.

But the high levels to which the stock rocketed tended to bring out shares, and also to prompt some short selling. As a result, by midweek prices in various markets softened somewhat and inter-market spreads narrowed.

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Massachusetts Turnpike Authority Defers Controversial $175-Million Bond Offering

The Massachusetts Turnpike Authority postponed at the 11th hour its controversial $175-million bond offering scheduled for this week. The issue, which was to finance a 12-mile extension of the main turnpike into downtown Boston, was withdrawn after the coupon rate and offering terms had been already set.

Underwriters felt they could not sell the issue at the 4.80% rate, and a state statute prohibits the authority from paying over 5%—a level Wall Street bond men felt necessary to tempt investors in view of the risks involved. There had been rumors that the offering would be canceled after some critics questioned the economic feasibility of the extension.

Although the official announcement said only that the bonds had been postponed, municipal bond men feel that the issue is definitely dead unless the authority can get the legislature to change the interest-rate ceiling.

New Stock Issues

COMPANY	ISSUE DATE	OFFERING PRICE	THIS WEEK'S PRICE (BID)
Albee Homes	Mar. 20	$16.00	$27.25
Alberto-Culver	Apr. 5	10.00	22.00
Bristol Dynamics	Mar. 21	7.00	18.00
Greenfield R.E. Trust	Mar. 28	20.00	19.00
Marine Capital	Apr. 4	15.00	17.62
Morton Foods	Apr. 5	12.50	21.00
Mother's Cookie	Mar. 8	15.00	24.50
Nytronics, Inc.	Mar. 17	5.00	14.00
Packard Instrument	Apr. 4	10.00	21.75
Polychrome	Mar. 7	8.50	19.75
Rego Insulated Wire	Apr. 5	4.50	7.75
Shinn Industries	April 3	6.00	8.00
Shoup Voting Mach.	Mar. 30	11.00	17.25
Whippany Paper	Mar. 8	15.00	14.00
Wyle Laboratories	Mar. 7	19.50	30.50

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Scramble to Buy New Issues

In Wall Street, where the herd instinct is always present, there has been a stampede into the new issues market. Investors and speculators have bid frantically for stock coming before the public for the first time, and the result is that the new issues market has become one of the most rewarding places for trading (illustration). By the same token, the speculative nature of some new, unseasoned issues makes them dangerous investments.

Underwriters say that interest in new issues is at a peak, with demand running far ahead of supply. Says one harried underwriter: "People want to buy—period. They don't seem to care what we're selling."

• **Wider Distribution**—This interest has been growing ever since last fall, when the stock market itself started to rise. But it has flowered as more underwriters get into the act of selling new stock; this means wider public distribution which, in turn, generates more demand.

At the same time, two other big forces are at work:

• Prestige-name underwriters are selling smaller issues—which they would have shunned five years ago—if only to meet the competition of smaller underwriters who have grown rich on marketing new offerings of small companies (BW—Sep.24'60,p147). (One big house, with a vast correspondent network, still is a bit shy of putting its name on its more speculative deals. It gets a smaller underwriter to do that job, but it controls the distribution.)

• Institutional investors, going further afield than they have before, find the new issue market one of the few spots where they can buy big blocks of stock without jacking up share prices.

All this has helped sharpen the taste of individual investors for new issues. Brokers report the proportion of orders for such issues—as contrasted against bids for existing shares—is running four to five times ahead of what can be considered normal. Moreover, the demand for new issues is not confined to Wall Street.

In Minneapolis, investors are scurrying after local, intrastate offerings, which sell at $1 or $1.15 per share. Brokers in California and in Florida also report that there's a big demand for local issues, particularly by sophisticated investors. Brokers in other areas say that they're being swamped by orders that they cannot possibly fill.

• **Clamor for Anything**—On Wall Street itself, brokers report that their customers ask for shares of any new

issues on the calendar. In fact, a top financial executive of one of the nation's biggest corporations is continuously bidding for new issues on an almost automatic basis.

This demand for new issues is a natural outgrowth of the desire to get in on the ground floor—many of the new stocks are purported to be the glamorous, growth stocks of the future. "Everyone is growth conscious" says one underwriter. "Everyone is looking for the new ideas, the new services, the new technological advances. The new issues market is the place to find them."

Even more important, the surge is symptomatic of the "get rich quick" attitude that characterizes an increasing number of buyers. Today's market is essentially a trader's market, and buyers are rushing in to new issues, which they can sell as soon as the issues jump to a premium.

• **Short Supply—**The very nature of the new issues market breeds this sort of speculation. For one thing, new issues are frequently in short supply. Normally, only a small quantity of stock is sold, and a good deal of this is placed in "firm" hands—investors who buy for the long pull, and have no intention of selling no matter what the premium.

Institutional demand is definitely restricting the public supply. C. E. Unterberg, Towbin Co., for example, upped its original issue of Lafayette Radio Electronics by 30,000 shares because an institution wanted a bigger block than it could have been allotted. (Placing stock with institutions, in effect, also acts as free advertising, since it brings a new issue to the attention of all these individual investors who act on institutional purchases.)

Because the demand is so much greater than the supply, free riding—selling shares immediately when the issue jumps to a quick premium and pocketing the profit without really putting up any cash—has become a problem. Normally, four days are allowed for a stock buyer to pay for his stock. But if shares are sold the first day an issue trades, the checks are "back to back"—the check paying for the shares is covered by the check presented for the shares sold.

The Securities & Exchange Commission has frequently scored the practice of free riding by insiders—particularly friends and relatives of the underwriters, who have been allotted shares of hot issues—because it adds artificial demand. But it is difficult to stop free riding or other tactics that stimulate demand.

• **Few Have Sagged—**So far, betting on new issues has proved out. Some have soared to fantastic levels in a short period. For example, Berkey Photo, Shoup Voting Machine, and Alberto-Culver (a cosmetics company), all brought out by substantial underwriters, jumped to big premiums immediately after they were issued. "For a big house," explains one broker, "it's like shooting fish in a barrel. How can A. G. Becker not have a hot issue when it brings out only 100,000 shares of Packard Instrument at $10 a share?"

In most instances, though, an individual investor can't really make a big killing, unless the stock, over the long term, jumps up and up in price—like Control Data, which came out at $2 a share four years ago and now is trading at $102. No single customer normally can get enough of a new issue to make substantial profits possible. (He has to be a big customer to even get a few hundred shares of a hot issue.) One underwriter mentions that on a recent hot issue, his firm was allotted a mere 50 shares for being in the selling group. "We put the allotment in a hat, and picked for it," he says.

• **True Value—**With this kind of feverish demand it's surprising that all new issues don't go up in price. But the fact is that a number of issues have dropped below their offering price. What worries many securities men now is that more will drop, once the market starts to reflect value, rather than being caught up in the fantastic high levels that exist currently.

Underwriters concede that the tremendous number of stock issues coming from relatively new companies leaves room for uninformed speculation. Donald Marron of Marron, Sloss & Co. explains: "The job of the underwriter now is to protect the public against itself. Investors are being lulled into a false sense of security from the current levels of prices. In the long run, some investors will get hurt."

One of the big troubles is that investors are being forced to buy strictly on faith. A broker admits: "If I call up my customer and tell him he can have part of a hot issue, he has to agree to buy right then and there. I can't afford to waste time giving him the details of an issue."

• **Dubious Practices—**Another upsetting factor is the tactics used by some smaller underwriters in peddling their shares. These practices have come under open fire from the SEC, but they still go on.

For example, some underwriters—acting contrary to SEC regulations—have suggested to their clients that they hold on to any new stock for a certain time after the issue date, say, 21 to 30 days. In so-called hot issues, this accentuates the short supply of the stock and any demand pushes prices higher. In issues that aren't expected to go too well, this time permits the underwriter to solidify his position in the stock, keeping it artificially high until further interest can be built up.

It's common talk in the trade, too,

that some dealers dole out new stock only if the buyer agrees to make some sort of comparable purchase in the open market after the issue is initially sold. For example, an investor will be given 500 shares of an issue if he will buy 500 additional shares in the aftermarket.

Other underwriters have been known to retail new stock to their own customers initially, then feed out stock piecemeal to the open market. In this way, an artificial scarcity is created, which is then filled only gradually.

• **SEC Gets Tough**—The SEC is trying to make things rougher for such underwriters. In recent weeks, it has clamped down on "Regulation A" filings—issues of less than $300,000 in which full public disclosure is not necessary and where no independent certified accounting is necessary. But the SEC is not really in business to keep investors from losing money—it merely insists that investors know the risks they are taking. So some of the sharper practices still go on.

An even greater danger is in overpricing. "In the long run," says one underwriter, "value will return to some of the over-priced new issues, despite the fancy premiums they are selling at."

The rule of thumb is to price an issue slightly below what comparable, but generally bigger, companies are selling for in terms of their price-earnings ratio. Underwriters deny publicly that much over-pricing is going on, but privately they agree that a number of stocks are being priced too high. Yet both the underwriter and the company are at fault here; both want the highest offering price possible.

• **Meeting Competition**—Some securities men believe that to meet competition a number of underwriters are running the risks of over-merchandising.

As a case in point, securities men cite the quickening cycle of fads in the new issues market. As in most market places, buyers rush for a certain type of item, when it becomes popular, then look for something else. This is very true in new issues.

At one time, land stocks were the hot item. Then, mutual fund management companies won the crowd's fancy. Next came bowling stocks; then shell homes. Now cosmetics companies are in for a rush; indications of orders for Charles of the Ritz stock in Wall Street are running at a fantastic rate.

However, the cycle turnover is faster now than it was a few years ago, which means that some underwriters, who aren't quick enough, are coming to market with offerings that are out of style. They have to merchandise them harder, since the companies usually aren't willing to lower their asking price, and investors are left holding the bag.

Wall St. Talks . . .

. . . about Russian sale of gold to London, new trends in mutual funds—including lower management fees.

Russian shipments of gold to London, which ceased in the last half of 1960, have resumed. British bullion brokers say that the gold rush of last October was accentuated when the Soviet stopped selling. Although some say the resumption is routine, others think that the renewed selling is a sign that the Russians no longer expect that there will be a new run on the dollar.

Lower management fees for mutual fund advisers seem to be in the wind—although they may be a long time in coming. Latest straw is State Street Investment Corp.'s move to reduce management fees 25% when the fund's assets pass $200-million—they stand close to that now. State Street was motivated partly by the fact that it has a new fund—Federal Street Fund—in its stable. This increases assets, as well as profits to the fund managers. A growing number of mutual fund men are resigned to a sliding scale of fees for management, instead of the traditional one-half of 1% fee.

Mutual fund men look for more funds to follow a pattern laid out this week by Waddell & Reed, Inc., to push the issuance of variable annuities. **Waddell & Reed will form simultaneously a new mutual fund and a companion trust.** Shareholders of the new fund—whose assets would be invested largely in growth stocks—could buy and sell shares just like any other fund. But, as their investment goals change, they could switch their holdings, at no extra cost, into the trust, which would issue variable annuities contracts. Up until the annuity payments begin, shareholders could add to the trust, either in cash or in fund shares.

Mutual fund distributors also are disturbed by the ground swell of interest in real estate investment trusts. A number of trusts are all set to file registration statements with SEC as soon as final tax regulations are issued. Many of these will operate—and sell shares—as open-end trusts. This would cut into the sales territory of income-type funds particularly as real estate ventures generally provide a high yield and the trust arrangement enables them to escape corporate taxes if they distribute 90% or more of their income to shareholders.

Out of Armour's Retraining Program . . .

In 1959, the meatpacking company decided to close six plants, reduce work at a seventh because of automation and modernization . . .

Of some 5,000 workers displaced, 400 at the Oklahoma City plant got the chance to try retraining in a trial experiment. What happened was that . . .

. . . Mixed Results

Only 170 workers grabbed at opportunity to learn new skills — and only 60 got accepted for retraining . . .

Many haven't found new jobs because of weak employment market, but are still hopeful . . .

Those in new jobs are working for less than they got at Armour . . .

Some workers will be transferred from Oklahoma to another Armour plant. But that will raise problems, too, such as seniority rights.

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Teaching the Jobless New Tricks

An increasingly frequent labor problem these days is the displacement of employees that accompanies automation. Whatever the answer to the problem, it isn't a "crash" retraining program undertaken in a crisis, according to Prof. Robben W. Fleming of the University of Illinois.

This thought, voiced at a Michigan industrial relations conference recently, was hardly new to the conferees, who had been considering structural unemployment. But it carried weight. As executive director of a tripartite automation fund committee established under Armour & Co. contracts with its two major unions, Prof. Fleming is in an excellent position to assess the success —or failure—of retraining plans.

• **Significance**—The importance of such plans is obvious from the developments of the past few weeks:

• New depressed areas legislation opened the way for extensive retraining programs in places with "substantial and persistent" unemployment to help the jobless acquire useful skills.

• In California, Gov. Edmund G. Brown signed into law a bill to provide "immediate job retraining benefits" through unemployment compensation—up to $55 a week for 26 weeks—for those considered technologically unemployed and "attending school to learn new skills."

• On Capitol Hill, Rep. Thomas B. Curtis (R-Mo.) said he plans to introduce a bill shortly that would do this nationally. It would provide for up to 26 weeks of UC benefits from state funds raised by an employer payroll tax for those on jobless rolls receiving training "in skills in demand." Money from federal aid to vocational education programs would be used to augment training opportunities.

• **"Crash" Programs**—To Prof. Fleming, these are "crash" or "quickie" retraining programs, useful but less promising than long-term programs "carefully thought out, carefully administered, continuing [through] 'normal' times, to upgrade the labor force generally and provide workers with supplementary and reserve skills."

Speaking personally, not as director of the pioneering Armour project, Prof. Fleming said that experiences in Oklahoma City—where the automation fund committee set up a pilot retraining plan —cast "real doubts" on the efficacy of programs inaugurated after a crisis is at hand. Some workers could be helped, he said, but many more couldn't.

• **Armour Experiment**—Armour & Co.'s experiment in retraining under its automation fund committee has been watched closely—and somewhat anxiously—by the government and others in labor and management. Undertaken in 1959 on a "crash" basis because of extensive plant closings and of dislocations, it raised the hopes of those involved, perhaps far too high.

Since then, the Armour program has "within reasonable limits" retrained workers for new jobs. Under more normal circumstances, it almost certainly would have done much better. Packinghouse workers involved in the pilot plan had a disturbingly low level of education; a majority couldn't be retrained beyond common labor jobs. And training opportunities for the others were limited by acute job shortages in the area.

Planning became necessary when Armour decided in 1959 that it no longer could continue to operate all of its meatpacking plants. Six were closed and operations were cut in a seventh. Some 5,000 workers were involved.

• **Automation Fund**—According to the company, it would be wrong to attribute this severe cutback to automation in its technical sense. The reduction was caused, instead, by "consolidation and modernization" of operations. Nevertheless, Armour agreed to establish a $500,000 "automation fund"—through contributions based on a formula of 1¢ for each hundredweight of tonnage shipped—to be used for:

". . . studying the problems resulting from the modernization program and making recommendations for their solution, including training employees to perform new and changed jobs and promoting employment opportunities within the company for those affected."

By agreement, the fund administration was made tripartite—four representatives of Armour, two each from the Amalgamated Meat Cutters & Butcher Workmen and United Packinghouse Workers, an impartial chairman, Dr. Clark Kerr of the University of California, and the impartial executive director, Fleming.

It was understood at the beginning

that its money would not be used to pay direct benefits of any kind—to augment severance pay. Its objectives were more long-term: to study and work out policies and practices for the future.

• **Pilot Project**—The Armour committee so far has not made public its conclusions—if any—from these studies. However, some of its experiences in the Oklahoma City pilot run on retraining and relocation of displaced workers are receiving attention from government, management, and labor as a result of preliminary—and reluctant—reports.

The Oklahoma City plant, which employed 400 production workers, closed a year ago. The automation fund committee offered to finance the major part of the cost of training for displaced workers who could show (1) an aptitude for a particular different job, and (2) "reasonable job expectations" as a result of retraining. The committee specified that its aid would be given only for a course "offered through some competent agency."

• **Aptitude Testing**—The committee sent in a team of experts and obtained the aid of the Oklahoma Employment Service for aptitude tests and counseling.

Of the 400 who were laid off, 170 took the tests. A few who had obtained new jobs were among them; they saw a chance for training for something better. But most of those tested were out of work and had little prospect of jobs. Of the 230 who did not take the tests, some were working—low-seniority people, laid off early, had an advantage in finding new jobs—and others apparently weren't interested in "schooling" of any kind.

The OES found that only 60 of the 170 tested would be likely to benefit from some kind of training. The others —some 65%—were advised that their best hope for employment would be found in the common labor market.

• **Retraining Costs**—According to Prof. Fleming, the committee told the 60 who were screened out that it would pay the first $60 of the cost of their chosen course, plus one-half of the remaining cost up to a total of $150. This meant that the entire cost for many retraining programs would be met but that—for some—a substantial personal investment still had to be made.

Only two of the 60 did not take advantage of the retraining offer. The other 58 took courses including such widely varied subjects as typing, office methods, blueprint reading, upholstering, welding, basic electronics, real estate procedures, air conditioning, and auto mechanics.

• **Mixed Results**—Some are now enthusiastically employed in their new fields. A former packinghouse worker, now a licensed real estate broker, says the closing of the Oklahoma City operation that forced his layoff and retraining was "the best thing that ever happened to me." The experiences of some others haven't been that happy.

According to the United Packinghouse Workers, many of those retrained haven't found jobs, partly because the bottom has fallen out of the employment market in Oklahoma City. Recently, of 13 who took a short course in retail meat cutting, only two were working in retail stores and two in wholesale businesses; two of the others found jobs as janitors and one in a warehouse; six were unemployed. Each of those in a new job was working at less pay—some worked more hours a week for half or less than their former weekly wage.

This isn't surprising. Those screened out for retraining were in many ways the cream of the Armour production workers—the highest-paid, highest-rated group was the most adaptable, most easily trained.

As the committee figures them, costs of this phase of its program will be about $4,000. It feels that the benefits have been worth much more than that.

• **Transfer Plan**—An experimental transfer plan also was agreed on for displaced Oklahoma City employees, with the understanding that neither Armour nor its unions would be committed to it as permanent policy. The Oklahoma City workers were asked if they would be interested in moving to an Armour plant in another city without seniority. Roughly half said they would be. A plan was worked out to provide certain moving expenses and other benefits for those who move. The plan has not yet been put into effect: The general deterioration in the labor market caused unemployment at the other Armour plants and, the company said, there were no openings for the transferees.

A relocation plan is considered "an obvious possibility" for a company in multi-plant operations when workers are permanently displaced at one plant; according to the automation fund committee, it is "probably . . . the best possibility for taking care of displaced employees within the framework of the bargaining relationship." But transfer plans are "fraught with difficulties," Prof. Fleming says.

For example, transfers raise problems of seniority, usually more for the union than the employer. So far, the committee has tackled these in theory but not in practice—with some arguments.

• **Severance Pay**—The actual backbone of Armour's policy toward displaced workers is still its severance pay program. The company has paid out more than $10-million to employees of closed plants since it began heavy shutdowns.

To the unions, severance pay is an important help in tiding workers over

ARMY'S NEW "SHOOT-AND-SCOOT" MISSILE SCORES SUCCESS

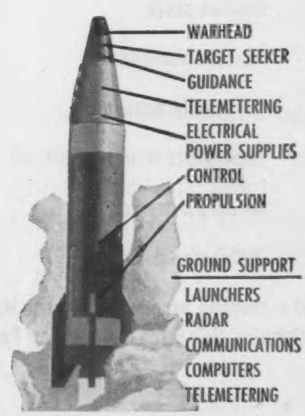
A new technique in warfare was dramatically demonstrated recently when the Army's latest missile, the Pershing, was successfully tested, using its new Bendix inertial guidance system.

This all-weather, ground-to-ground weapon—sometimes called a "shoot-and-scoot" missile by engineers at The Martin Company, its prime contractor—requires no fixed launching site. It can be rushed to an unprepared site either by highly mobile ground launching equipment, or by aircraft, and fired in minutes. The installation then "scoots" before the enemy can zero in on the launching site.

Largely responsible for Pershing's deadly accuracy is the Bendix inertial guidance system. Bendix was selected for this job because of its previous experience in building similar types of equipment. Some of the more critical components are held to tolerances of *10 millionths of an inch.*

This is but one of many Bendix activities in the missile and space fields. We are prime contractor for the Navy's Talos missile. This *surface-to-air* missile is the principal armament of our new missile cruiser fleet, and because it has accuracy and far greater range than the big guns of yesterday, it has helped put the battleship in moth balls.

Bendix built, operates and maintains Minitrack and SPASUR, two of the three U. S. satellite tracking systems. The Bendix Satellite Tracker—a unique telescopic lens-TV combination recently developed for visual tracking—took what was probably the best telephoto of the Russian space ship, Sputnik IV, prior to its breakup.



The general location of various Bendix-made systems and their components are shown here. No particular missile or satellite is represented in this drawing.

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until they can get new jobs and to make it financially possible to move to a new location, but it "provides no real solution in the meatpacking industry because increasingly there are no jobs available," in the words of UPW's president, Ralph Helstein.

UPW figures show over 30,000 production jobs lost in meatpacking—despite slightly higher meat production—over the past four years, and the union predicts that 40,000 more "will certainly be lost . . . one out of four workers now on the job, based on the present work force of 162,000."

• **Union Position**—Fearing this prospect, the UPW and the Amalgamated Meat Cutters are grasping at every possibility for help—including the Armour automation fund plan. But Helstein contends: "The scope of this problem is so great that no one company or industry can handle it . . . it must be dealt with ultimately on a national level." Meanwhile, he suggests—as bargaining demands for this August when Armour and other major meat packer contracts open up—"standby provisions for a shorter work week where technological change would displace substantial numbers of employees," and provisions for "guaranteed income" for two to five years as a protection against permanent layoffs.

Move to Bar Strike Replacements

New law being pushed by unions in state legislatures would prohibit the hiring of other workers from across state lines.

In these days of tough management bargaining, it's fairly common for employers to defy union strike action by manning plants with replacement workers. State and federal laws—as well as the public's unsympathetic attitude toward many labor disputes—now limit what unions can do to keep replacements away from jobs.

Worried by this situation, labor leaders are seeking alternatives to the big, brawling picket lines that successfully blocked plant gates in the past, but now run into quick legal trouble. One new weapon sought in 19 state legislatures this year is a law to prohibit the hiring of strike replacements across state lines. The law is being pressed by unions in the printing trades, but it would apply potentially to all industries where craft skills are important and in short supply locally during strikes.

• **Battle Lines**—Both unions and employers have been quick to recognize their stakes in the measure. The AFL-CIO has lined up behind the seven printing-trades unions that initiated the legislative proposal. The U. S. Chamber of Commerce, the National Assn. of Manufacturers, and state employer organizations are backing the American Newspaper Publishers Assn., which opposes it.

The "model bill" framed at an International Typographical Union convention in August, 1960, is based on a Pennsylvania law that prohibits any person or company not directly involved in a strike from bringing replacements across state lines. The Pennsylvania law exempts federal, state, and licensed employment agencies, but the ITU model bill does not.

• **Legislative Progress**—Since August, versions of this bill have been adopted in Massachusetts, New Jersey, Washington, and Maryland. In West Virginia the bill has passed one house of the legislature. Similar bills have met defeat in nine states, are now in the legislative works in 18 other states, and are due to be introduced shortly in six more.

The ITU measure differs from the federal Byrnes Act—which is aimed at "protective forces" hired by employers to smash picket lines—in that its target is the non-union craftsman who replaces a striker.

• **Printing Trades Aroused**—Out-of-state craftsmen are especially important to the printing trades because no pool of workers able and willing to replace strikers is likely to exist in the immediate neighborhood of a struck plant. Printing trades workers are both highly skilled and traditionally union-minded. Almost inevitably, the printing employer who wants to keep going during a strike must reach across state lines for his replacements. In most cases, according to the ITU, he uses agencies that specialize in providing replacements. The proposed bill would make this operation illegal.

In its "model" form—which has little chance of passage anywhere—the bill also would make it unlawful to replace a striker with a professional strikebreaker—"any person who customarily and repeatedly offers himself for employment in the place of employees involved in a labor dispute."

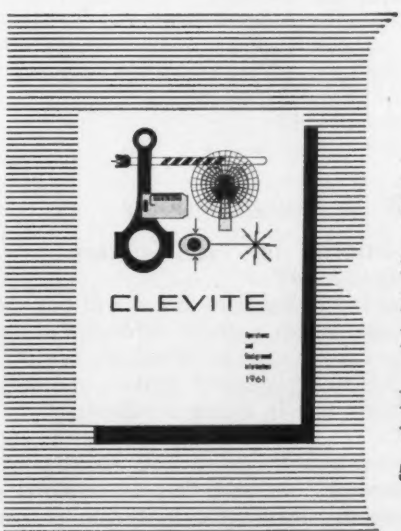
The union campaign got under way after out-of-state workers successfully replaced strikers in the 29-month strike against Westchester County's (N. Y.) Macy newspaper chain and in the current strikes against the Portland (Ore.) Oregonian and Journal. Studebaker agencies were used, the unions say. END

How to get useful information about Clevite Corporation

1960 ANNUAL REPORT

- 12 pages
- Analysis of last year's operations
- Financial and statistical data
- Charts
- No illustrations

- Record volume of $94,000,000
- Record earnings of $6,800,000
- $9,700,000 research program
- $9,200,000 capital expenditures
- Particularly strong growth in transistors, rubber-metal parts, replacement bearings, electronic instruments
- New developments in piezo-electricity
- Cash dividends for 38th consecutive year



1961 OPERATIONS BOOK

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In Labor

• • •

Reuther Calls AFL-CIO Meeting To Discuss Drop in Union Membership

Leaders of industrial unions affiliated with AFL-CIO were called to New York this week to discuss ways that labor organizing—long dormant—can be given new vitality, perhaps through a more active role by AFL-CIO's Industrial Union Dept., headed by Walter Reuther of the United Auto Workers.

The special meeting called by Reuther indicated labor's growing concern over steady losses in membership. **AFL-CIO dropped by 300,000 in 1960, to 12,500,000**, a million under the total at the end of 1957. Figures for some key unions show:

The United Steelworkers, hard hit by recession layoffs, is at its lowest level since World War II, about 800,000 dues-paying members; its peak was 1,210,000 in 1956. The USW's net worth is reported down from $33-million two years ago to $24-million now.

The United Auto Workers reported 1,265,000 dues-paying members in February, 1960, while its financial reports for this February indicated 1,004,974 paying dues, a loss of 260,000.

The International Union of Electrical Workers had 400,000 members in the mid-1950s; now it's down to about 320,000.

The International Assn. of Machinists membership, a claimed 910,000, is down about 40,000. Most of the decline came in aircraft plants.

The International Brotherhood of Electrical Workers is managing to stay about even year to year, at 700,000, but is finding it harder to recruit new members to offset heavier losses through attrition and layoffs.

The Oil, Chemical & Atomic Workers has been hurt by technological developments that have cut jobs in its industries; it shows a drop-off of about 10%, to 172,000 dues-payers.

• • •

First-Quarter Wage Settlements Average 8.1¢, About as Big as Last Year's

Preliminary wage settlement figures for the first quarter of 1961 show an over-all median of 8.1¢ an hour, just a fraction less than the median for the same period in 1960. However, **bargaining analysts expect the median for the full year to rise to 9¢ an hour, about the level of last year.**

The median in manufacturing for the first three months of 1961 was 7.9¢ an hour, as compared with 8¢ over the same period of 1960, according to the Bureau of National Affairs, Inc. The median for nonmanufacturing raises was 8.5¢ as compared with 9.5¢ in 1960; excluding construction raises, the comparable figures would be 8.3¢ and 8.9¢.

More zero settlements were reported, 6% as compared with 4% in 1960, and there were more raises of 1¢ to 4¢ an hour, 4% as compared with 2% in 1960. The percentages of 4¢-to-7¢ raises (23%) and 7¢-to-10¢ increases (31%) were the same in 1961 and 1960. The percentage of 10¢-to-13¢ raises was up slightly, but a drop in above-13¢ raises reduced 10¢-and-up raises from 40% of the total in 1960 to 37% in 1961.

• • •

Syracuse Supermarkets Line Up Against Strike at One Chain

Supermarkets in Syracuse formed a solid front last weekend when the Amalgamated Meat Cutters & Butcher Workmen and affiliated crafts struck the Loblaw Stores, a chain. **Four other chains shut down.** In all, 300 stores that normally employ 8,000 union members were affected.

The chains, represented by an employers' joint council, contended that a strike against any member must be considered a strike against the entire group.

• • •

Government Will Investigate Alleged Job Bias in Contract Work

Contractors and union officials will be called to account within a month for more than 100 cases of alleged job bias. The President's Committee on Equal Employment Opportunity plans face-to-face meetings on ways to eliminate discrimination on government contract work.

The committee has ordered government agencies to investigate complaints, including one against Lockheed Aircraft Corp. for alleged discrimination at its Marietta (Ga.) plant. Lockheed holds a $1-billion Air Force contract for jet transports. This could be voided if the committee finds that discrimination exists.

• • •

Labor Board to Weigh Legality Of Super-Seniority for Non-Strikers

The National Labor Relations Board will hear arguments in May on whether a struck employer can award super-seniority—seniority superior to and not based upon length of service—to replacement workers and strikers who elect to return to jobs during a walkout.

An NLRB trial examiner ruled earlier that an unfair labor practice complaint against Erie Resistor Corp. should be dismissed. **He held that an employer can award super-seniority legally for legitimate economic reasons, to maintain production during a strike, provided the intent is not to punish or retaliate against strikers.**

The International Union of Electrical Workers appealed the case to the full NLRB. It argued that Erie Resistor could have obtained sufficient replacement employees in Erie, Pa., with its high unemployment without offering 20 years' super-seniority to those willing to work. IUE contended the company's motive was to discriminate against strikers and weaken the union.

PERSONAL BUSINESS

BUSINESS WEEK
APR. 15, 1961

A BUSINESS WEEK SERVICE

Your 1960 tax return is probably in the mail by now. This year, it's more likely than ever before to be red-flagged by the Internal Revenue Service for a special audit. In fact, if your income is $10,000 to $30,000, chances are at least 50-50 that your return will be singled out.

If you're somewhere in the brackets above $30,000, there'll be no odds at all—the plan is to audit all such returns. The reason: IRS has adopted this as its major weapon in a drive to close as many loopholes as possible and increase collections.

Briefly, here's how an audit works: First, IRS notifies you by mail that your return has been flagged and states a time and place for an examination. You'll be given about two to three weeks' warning—**time to assemble all records needed to substantiate your Form 1040.**

If the time appointed for an exam is awkward, write to the regional IRS office and ask for a better date—usually, you'll have no trouble.

Your first real decision will be whether to appear by yourself or with your tax adviser. Or should you let him go in your place? Some experts suggest the latter, especially if sizable amounts are involved. Frankly, they say, you're apt to encumber the two-way exchange of tax talk between your adviser and the IRS agent.

Pointer. If your case is unusually complex and based on many outside records, IRS often will conduct the exam in your office, at your request.

This first exam is fairly routine. After it's over, the agent may accept your 1040 as filed, or he may want changes—meaning more tax. If you disagree with him, you can ask for an "informal conference." **This phase of auditing has been expanded in the past few months.**

In the informal conference, you explain your case before the agent's "group supervisor." The atmosphere is relaxed and conversational, with the supervisor acting as referee. He'll be objective and may agree with you—but **if he sides with the agent, you still have some recourse short of going to court.**

The next move is the agent's. After the first exam—or the informal conference, if you have one—he sends you a formal report stating the IRS position on the case. **You have 30 days to protest his findings to the Appellate Div.** For this, you prepare a statement fully explaining your side of the case, sign it under oath, and mail three copies to the District IRS office.

The Appellate Div. consists of a special group of IRS experts, trained to settle tax disputes and operating entirely apart from the line personnel you already have contacted. By this time (if not before), **you'll want to have a professional tax adviser on hand.** At this stage, you go again into a conference before an individual referee who scrutinizes your tax records, discusses the pros and cons with you, and makes a decision.

The only way to protest this decision is to go into the federal court system. But unless you have encountered some uncommonly rough treatment at the administrative level, or an odd set of facts makes your case unique, your adviser likely will tell you to give in and forget it.

In the first place, a court action is costly and time-consuming. Besides, you run the risk of winding up with a result less favorable than the compromise you may have worked out with IRS.

Last-minute hitches: Suppose you discover at the last minute that you won't be able to meet the Apr. 17 filing deadline—or you have missed it.

To avoid a penalty, promptly file a statement with your District IRS office, showing (if you can) that the delay is due to a "reasonable cause"—serious illness, loss of tax records, and such. Have your signature notarized.

If filing date sees you unexpectedly short of liquid funds, try to get an extension of time by filing Form 1127. You must show "undue hardship"—for instance, inability to liquidate securities as expected. If you do get an extension (up to six months on a routine basis), you may be asked to post security in the form of a bond, mortgage, etc.

Finally, if you have filed on time, but now discover that you've muffed facts or figures, promptly file a second return marked "amended." If your tax is higher, enclose the extra amount with the revised 1040.

—•—

Auto insurance rates may be heading into a slow downturn. Cuts are likely in many parts of the country this year, according to the National Assn. of Independent Insurers. NAII feels that **competitive pricing,** pioneered by such companies as State Farm Mutual Automobile Insurance Co. and Allstate Insurance Co., will be a much stronger factor than in the past.

NAII prediction: **a sharp increase in the sale of "uninsured motorist coverage."** If this isn't already written into your present policy, you might consider it—you protect yourself and passengers in your car against the driver who can't or won't carry liability coverage. The cost varies from state to state, but it's low. In Pennsylvania, for example, you pay $3 a year for one car, $2 more for a second car, for injury compensation up to $10,000 per person, with a $20,000 limit per accident.

—•—

If you fly your own plane, look for new air safety regulations to come out of the current series of "air-share" conferences ("air your views; share the benefits") sponsored regionally by the Federal Aviation Agency. You can express your opinions at meetings set for Springfield, Ill., Apr. 19; Atlantic City, N. J., Apr. 27; and Jackson, Miss., May 2. Or send them to Safety Regulations Branch, FS-40, FAA, Washington 25.

If you want a pilot's certificate, FAA has a new guide booklet for the flight test portion of the certificate exam. It explains maneuvers, routine and emergency operations, and flight planning for single-engine planes (Supt. of Documents, Government Printing Office, Washington 25, D. C.; 10¢).

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Two powerful new drugs, sulfinpyrazone and zoxavolamine (trade names Anturan and Flexin), are now recommended **to relieve stubborn cases of gout** when standard therapy with probenecid (Benemid) is ineffective. Available on prescription only.

—•—

Gentle Americana: For the first time, all 136 of Mark Twain's humorous short stories and sketches have been crammed into a single volume—720 pages, edited by Charles Neider. Here you'll find a number of lesser-known items not previously published in book form—**The Complete Humorous Sketches and Tales of Mark Twain** (Hanover House, $4.95).

From a later but still placid era comes a collection of "early modern" humorous pieces, **The America of George Ade,** edited by Jean Shepherd (Putnam, $4). It contains cheery fables, short stories, and essays by the leading forerunner of Lardner, Perelman, and Benchley.

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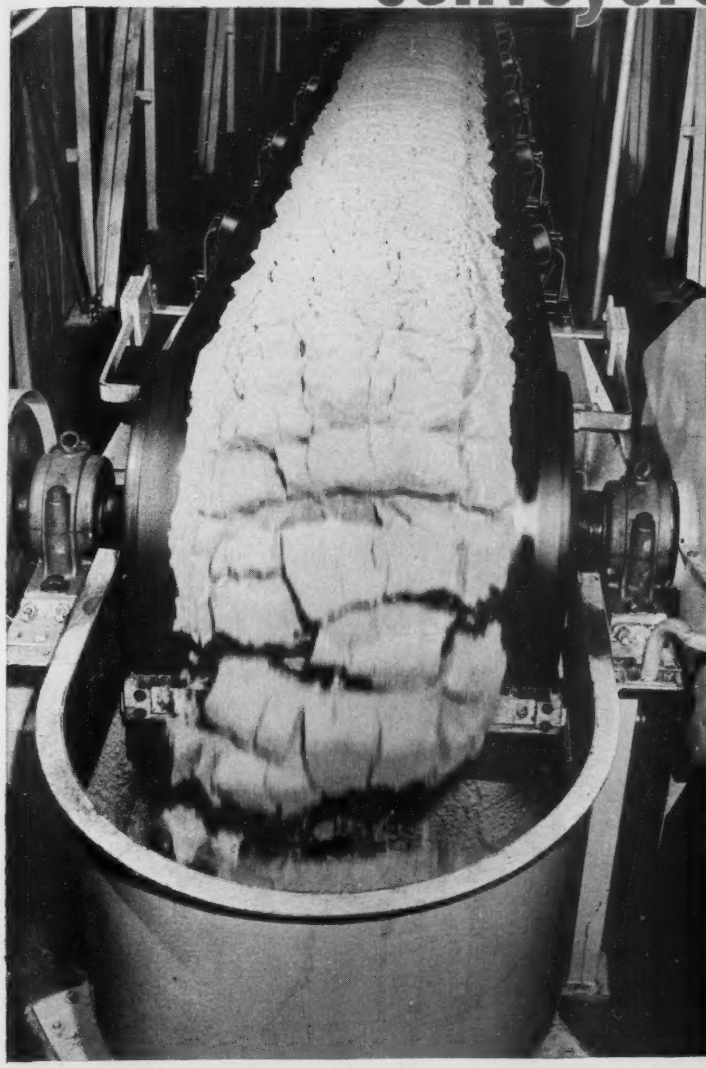

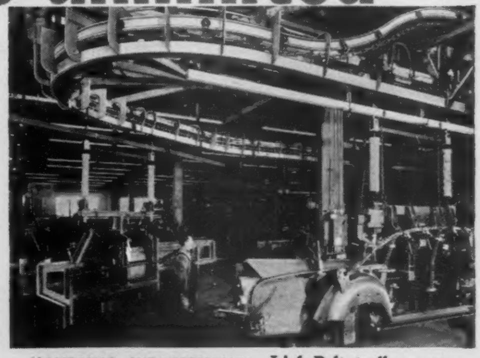

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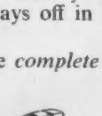

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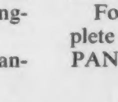

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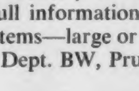

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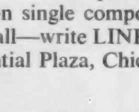
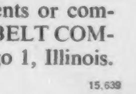


CONVEYING EQUIPMENT



ENGINEERED (PROCESSING) EQUIPMENT

Getting Merged Team in Harness

Olin Mathieson's post-merger tensions proved costly (chart), but after four-year revamping, it's ready with a firm plan of action to meet its profit goals.

When Olin Industries, Inc., and Mathieson Chemical Corp. merged seven years ago, it looked like a brilliant match. The two companies had been expanding rapidly and profitably since World War II. Together, they ranked fifth in the chemical industry with sales of half a billion dollars and held strong positions in a dozen major businesses.

But before the enthusiastic stockholders even got their first annual report from the new Olin Mathieson Chemical Corp., the honeymoon was over. Since then, the difficult adjustment period that follows almost any merger seems to have stretched out year after year, with company managers alternating between gloom and optimism over new projects.

This week, as a few early-bird stockholders start packing their bags for the journey to Saltville, Va., for the Apr. 25 annual meeting, Olin Mathieson's top brass are planning an optimistic report that they feel sure won't explode in their faces. Their enthusiasm isn't over some new product or dramatic merger but the completion of a program that gives O-M a detailed idea of where it is going and mobilizes all its management resources to do the job.

According to Olin Mathieson's Pres. Stanley de J. Osborne (picture), the chief architect of this companywide overhaul, the lack of a really detailed road map has kept O-M management wandering in the economic wilderness all these years. A quick look at the annual report for 1960 shows dramatically how costly this was. Compared to 1955, the first year after the merger, sales are up $128-million; but net income has dropped about $10-million, earnings per share are down 26%, long-term debt is up 65%, and the dividend has been halved.

I. Post-Merger Blues

The reasons for O-M's disappointing showing are wound up in the personalities and management methods of the men who built up and brought together the original two halves of the company. Both John M. Olin, now 68, and Thomas S. Nichols, now 51, the forces behind Olin Industries and Mathieson Chemical, respectively, were hard-driving company builders who, with their top advisers, were more at home negotiating a merger than worrying over management details. Despite elaborate precautions for the shift in corporate gears, the top brass of each failed to mesh.

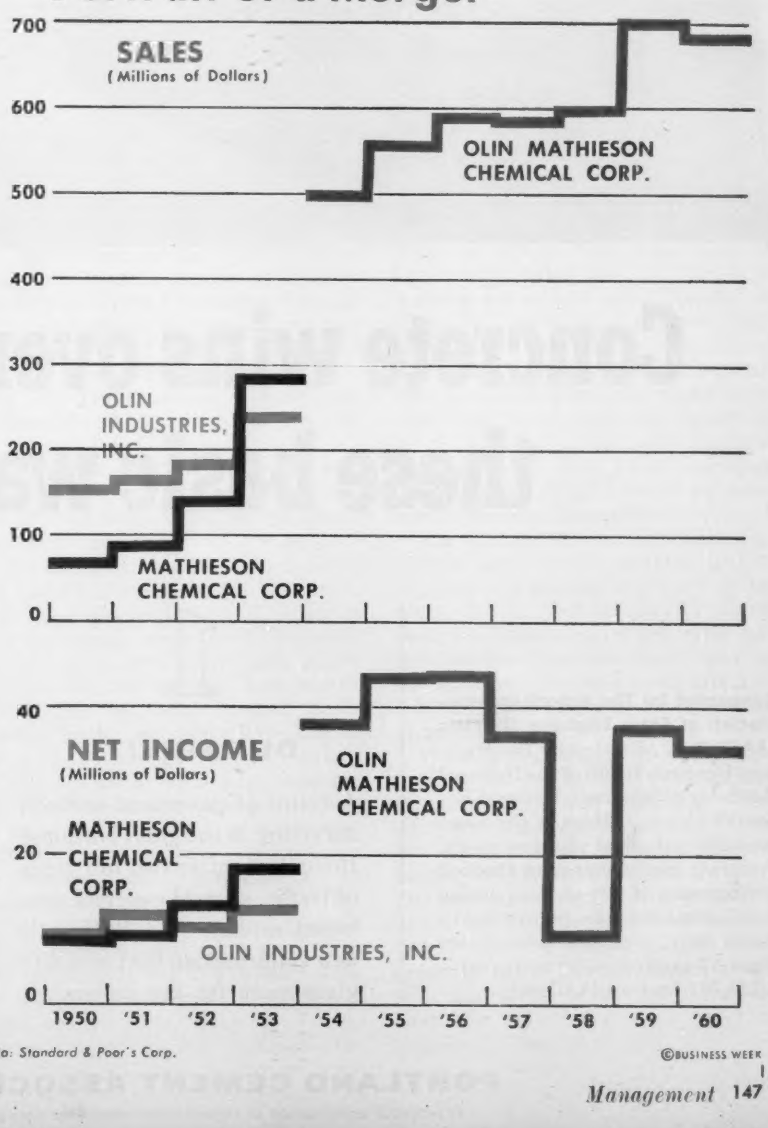
Tensions at the top made it difficult, if not impossible, to work out consistent and effective policies for the new company and its basketful of diverse businesses spread throughout the country and overseas. The divisions at the beginning included Olin's arms, ammunition, explosives, brass, cellophane, plastics, cigarette paper, and lumber as well as Mathieson's inorganic chemicals, petrochemicals, insecticides, fertilizers, and drugs.

• **Expansion-Minded**—Before all these units were even coordinated Olin Mathieson's expansion-minded executives started jumping into new deals. For example, the company poured money into new lines such as aluminum, merged with small companies in missiles and atomics, jumped into boron fuel research for the Air Force.

Some of these went wrong (boron fuel cost O-M $9-million when the Air Force canceled the program). Others will pay off eventually (aluminum, which was started in 1956, is only beginning to make money). But all put a strain on manpower and capital.

• **Man for the Job**—By the recession year of 1957, when sales slipped for the first time, the situation was serious. The

Portrait of a Merger



Data: Standard & Poor's Corp.

©BUSINESS WEEK

REORGANIZER—Pres. Stanley de J. Osborne has given Olin Mathieson a companywide overhaul, centralized control, and a detailed program for future growth.

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Sponsored by The American Association of State Highway Officials (AASHO) . . . directed by the Highway Research Board of the National Academy of Sciences—National Research Council. Here is the most scientific pavement test ever made. Accurate instrumentation checked performance of test sections during 2 full years of traffic. 99 trucks, 19 hours daily, 6 days a week. There were 17 million miles of travel—1,113,762 load applications!

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PORTLAND CEMENT ASSOCIATION

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top executives of the old companies decided that, while they couldn't agree on what to do, they could agree on a man to take over the president's chair.

In May, 1957, John Olin gave up the chairman's job to Nichols, and Osborne became president with the assignment of getting the company back on the profit track. Under the merger agreement neither Olin nor Nichols had been chief executive officer, so this title was not involved in the shifts.

Osborne, 56, was born in Costa Rica, but speaks with a hint of a Boston accent, picked up during his education at Phillips Academy, Harvard College, and the Harvard Business School. His office decor clearly reflects his business experience—a ship's clock standing for the Atlantic Coast Fisheries Co., and model airliners for Eastern Air Lines, Inc.

Osborne is primarily a financial specialist who came to O-M from the Mathieson side of the merger. But for over two years, he had been general manager of the successful International Div. In temperament and outlook, he was and is the professional-manager type. As he puts it, "I'm a detail man; when I read a report, things seem to jump out at me from the page."

II. Top-to-Bottom Overhaul

Gathering details took most of 1957, but the next year O-M was involved in sweeping changes again—this time internal rather than external. In 1958, the financial statement was cleaned up by a write-off of $29.1-million. Most of this was for start-up and other new plant costs that are usually spread over several years.

At the same time, Osborne started selling off odds and ends of company businesses that he felt didn't fit the company's over-all goals. This brought in cash to pay off part of the debt, and eased the strain of the recession.

• **Two-Year Job**—In the next two years, the company was reshaped from top to bottom to bring more control into the hands of executive officers in New York.

From the 19 divisions and other operating units that reported through nine executive vice-presidents in early 1957, Osborne cut back to six operating divisions and an international division in 1958. The names of these indicated where the company would concentrate—chemicals, energy, metals, packaging, Squibb, and Winchester-Western. That's still a wide area. With changes in organization have come innumerable shifts of management personnel. And as one O-M executive explains in a slightly mixed metaphor, "Lots of dead wood rolled." All the division managers but one got their jobs from Osborne.

• **Central Hand**—Reorganization was followed by more top controls, as each company operation got a thorough examination to make sure it was getting the most from its resources and helping the total effort as much as possible. Division managers spent more and more of their time giving detailed reports to Osborne and getting more help from beefed-up staff departments.

Finally, Osborne decided to bring all but one of the division headquarters to New York. Their top men were already spending about half their time in O-M's Park Avenue headquarters—because, as Osborne explains, "I don't like to have to make appointments to see my division managers next month."

III. Program for Profit

These efforts were only the groundwork for the main task of giving O-M a direction. In the last year, most of the attention of Osborne and his staff has shifted to this job. Three general characteristics of the program have emerged. Olin Mathieson is:

• **Concentrating on its existing businesses** to raise profit margins, instead of hunting new fields to conquer.

• **Centralizing planning** to make sure capital resources and research budgets are used most effectively for the company as a whole.

• **Building a new corporate identity** so that all products will get some of the benefits of expanded advertising and other marketing programs.

• **Modernizing**—In the effort to fatten up profit margins, capital expenditures have risen to over $50-million this year, after a lull during the company reorganization. But the money is coming out of cash flow, not from outside financing. In most cases it is going into expansion and modernization programs in chemicals and metals.

O-M had become burdened with obsolescence in some of its fundamental product lines, while the company's resources were going into new projects.

• **Discard**—The emphasis on building up O-M's older established businesses has left little in the way of resources for developing newer areas, especially if they don't show much profit potential for the near future. Last month, O-M spun off direct control of its nuclear fuels operation (BW—Mar.18 '61,p31). Although this was making money, it would need large infusions of cash to build up to the point where it could really compete in future commercial atomic markets.

• **Planning and Research**—In its centralization of corporate planning, O-M has adopted all the usual methods of monthly and quarterly reports from the divisions, as well as a detailed study of budgets by Osborne. The Squibb Div. vice-president, John J. Toohy, recently got an idea how thoroughly the fine print gets read when Osborne told him he thought it a logical idea that drug samples are now charged to sales promotion rather than advertising.

A more concrete example of centralization, however, is the consolidation of research work at New Haven, Conn. Just three weeks ago the company dedicated its enlarged $7.5-million research center there. Though most of the expanded research budget—$24-million in 1960, up 53% from 1957—is still the responsibility of division managers, Research Vice-Pres. W. E. Hanford will have more of a chance to look over everyone's shoulder.

• **Just Starting**—While programs for getting such matters as capital expenditures and research efforts into line are just about completed, the third part of the program—the building of a new public awareness of Olin Mathieson— is just getting under way. Osborne hates the term corporate image—it "smacks of Madison Avenue," he says—but that's about what he is trying to build.

Advertising for the divisions is being pulled together. Doyle Dane Bernbach, Inc., got the corporate account last fall after another agency had had it for over 30 years. Divisions are switching to the new agency also.

The first campaign under the new program got started this month. Its purpose is to build up the name Olin as a nationally recognized symbol for all O-M products, much as the name du Pont is used by E. I. du Pont de Nemours & Co. The design firm of Lippincott & Margulies, Inc., has been working for a year on a scheme to eliminate a multitude of company trade names in favor of Olin.

• **On the Way**—Even relatively minor changes such as these don't come easily —old Mathieson employees hated to see the Olin part of the name dominate the company. But O-M executives think that centrifugal forces in the company have been eliminated.

The financial dead weight of the aluminum part of the business is lifting, too. In the last four years it has taken almost $500-million in capital outlays without a return; but in the last few months operations have been in the black, and the rapid amortization of a $100-million loan will be completed in another two years.

What is encouraging to O-M managers is the feeling that the company has been getting real leadership. The days when management groups from the old companies were pulling and hauling in different directions are over. Osborne has emerged as the man who makes the final decisions; and he has picked up the once-discarded chief executive title. Recently, when asked who runs Olin Mathieson Chemical Corp., he replied firmly, "I run this company." **END**

In Management

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Impressive Title Means Higher Pay, NICB Study of Executives Shows

In the lower levels of management, it's traditional to gripe about companies' handing out titles in lieu of raises. But a recent National Industrial Conference Board analysis of top executive salary relationships shows that titles and pay do go together, at least at the top.

NICB compared the pay of the top two men in 586 manufacturing companies and found that the more resounding a title No. 2 had the more money he was likely to take home. When the No. 2 man was called the president, his pay averaged 81% of that paid to the No. 1 man (the chairman). If his title was executive vice-president, in the salary ranking he scored only 71% of the pay given the top man, in this case usually the president. If No. 2 was some other kind of vice-president (financial, sales, manufacturing, divisional, or just plain vice-president), he averaged only about two-thirds the pay of No. 1.

Those chairmen who ranked No. 2 didn't do so badly: Their paychecks were 79% as big as the president's. But only a third of the companies even had a chairman among the three highest paid men. The chairman was top dog in only about 20% of the companies; the president, in about 75%. In the others, the same man had both titles.

• • •

Cash Payoff for a College Degree Stays High Despite Flood of Graduates

A few years ago some economists were predicting that the constantly growing supply of college graduates would flood the market and reduce the dollars-and-cents payoff from a sheepskin. So far, that hasn't happened, Herman P. Miller, staff assistant to the director of the Census Bureau, reports in the American Economic Review.

Since 1940 the proportion of male college graduates over 24 in the population has nearly doubled. But the income differential between high school and college graduates has actually increased a little. In 1939 a college degree was worth (in average annual earnings) 57% more than a high school diploma; in 1958 it was worth 65% more. **The income gap between high school and elementary school graduates has widened even more in a shorter time—from 26% in 1946 to 48% in 1958.**

In 1958, Miller found from Census Bureau data, the average college graduate was earning about $9,200 a year, with his lifetime earnings estimated at more than $435,000. In contrast, the average high school graduate was making less than $5,600 a year (less than $260,000 over his lifetime) and the man with only eight years of schooling was knocking down less than $3,800 (with lifetime earnings of a little more than $180,000).

Education is still a good investment, Miller concludes. To explain why college degrees haven't lost their economic value as they have become more commonplace, he points to the fact that **the proportion of men employed as professional and technical workers and managers and proprietors has gone up about 50% since 1940.** Evidently the demand for college graduates has kept pace with the supply.

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Bureaucrats Assail Bureaucrats For Know-It-All Attitude, Use of Jargon

When the politician and the professional manager in government work at cross purposes, the blame can usually be laid on the career administrator. At least, that seemed to be the conclusion of a panel of local, state, and federal government administrators—most of them career men themselves—when they discussed the subject in Philadelphia last week at the annual convention of the American Society for Public Administration.

The panelists had their complaints about elected officials—mainly that they don't always spell out their programs adequately or take full advantage of available professional advice. But **most of the darts were reserved for the bureaucrats. All too often, said William D. Carey, executive assistant director of the U. S. Bureau of the Budget, the career men are "smug, know-it-all administrators who revel in expertise."** The "experts'" use of specialized language tends to insulate them from the elected officials, who speak a language "much closer to that of the people," according to one panelist.

Other complaints against the career man:

• He often looks down on the politican, considering himself the real public servant and the elected official merely a sly crowd-pleaser.

• He isn't "attuned to the political realities." And, added William J. Ronan, Gov. Nelson A. Rockefeller's secretary, he could use "some sense of political timing."

• He's not a local product, hence doesn't give enough attention to local traditions and idiosyncrasies.

• There's a tendency for some bureaucrats to become so proficient at handling certain problems that they don't want them solved.

There's more than self-interest to make the professional administrator want to work well with the elected official, the speakers agreed. As Carey put it: "Administration would be the dullest and most sterile of professions if it were not for the political types."

• • •

AMA to Open European Center

Some 500 executives have now been exposed to modern management methods at the American Management Assn.'s first overseas branch, the Management Center do Brasil (BW—Aug.6'60,p56). Now AMA is expanding into Europe.

The association's foreign arm, the International Management Assn., will open a Management Centre-Europe in Brussels Sept. 1. With the help of simultaneous translations into English, French, German, and Italian, European and American executives will trade ideas on management in a year-round meeting program.

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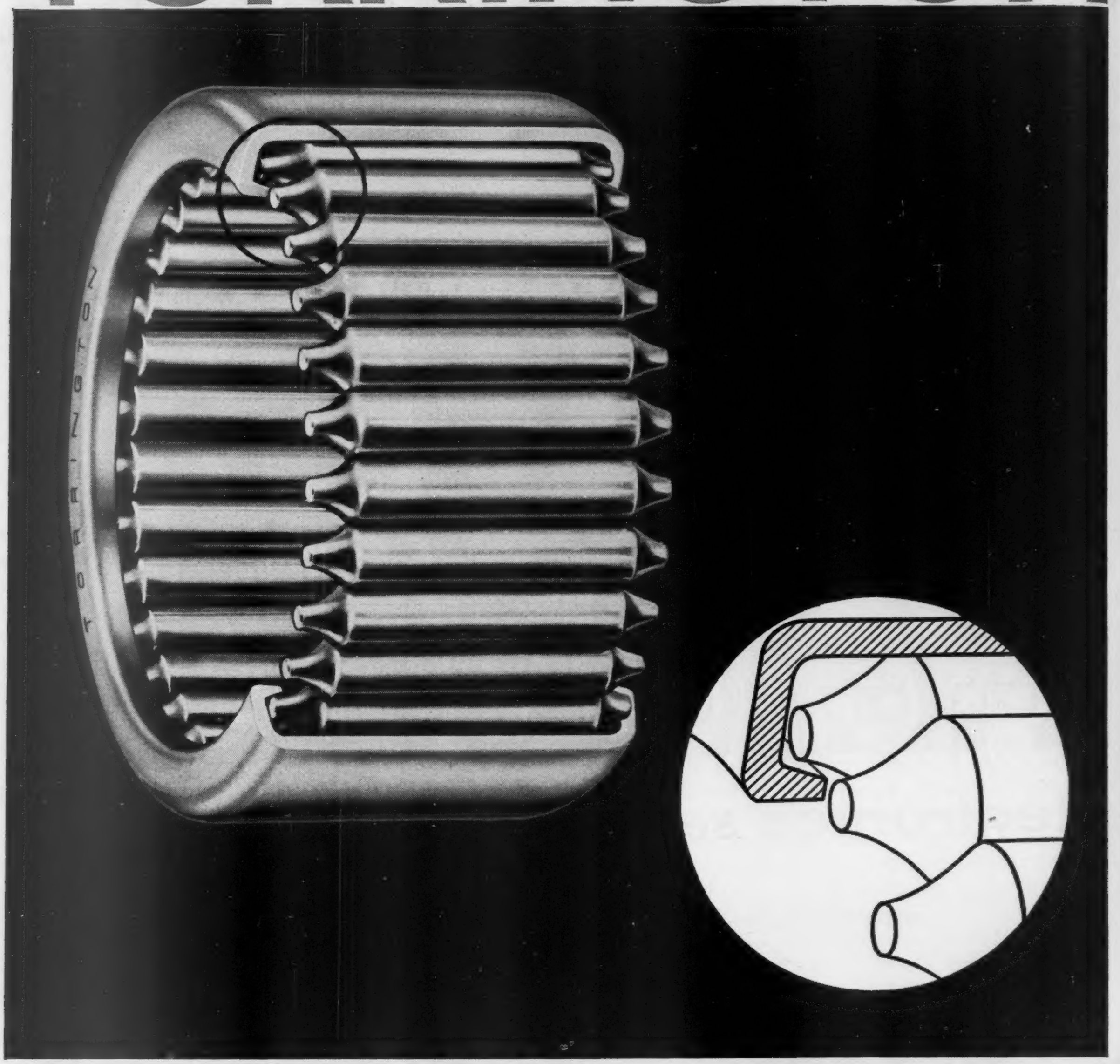

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ALBERT M. COLE, former Housing Administrator, heads a new Reynolds Metals Co. subsidiary based on the proposition that there's . . .

Good Business in Urban Renewal

Reynolds is acting as controlling sponsor in six cities. It expects projects at least to pay for themselves, but expects the chief gain in expanded sales of aluminum.

In Cincinnati's West End, new townhouses and apartment houses are rising on ground where the city's worst Negro slums stood not long ago. The first model units will be completed this month—a mosaic of yellow, green, white, and blue in sharp contrast to the drab surroundings. By the end of the year, all 323 units are supposed to be ready for occupancy.

This development, cooperatively owned, is important in the rehabilitation of Cincinnati. It is equally important as the debut of Reynolds Metals Co., big producer of aluminum, as a developer of urban renewal projects under former Housing Administrator Albert M. Cole (picture).

Cole, who left government service in January, 1959, is executive vice-president of a new Reynolds subsidiary, Reynolds Aluminum Service Corp. This subsidiary is set up to earn modest profits from housing projects while providing a greater market for aluminum.

• **More on the Fire**—Reynolds has been in this business only a little more than a year, but already it has contracts in six cities—as many as Webb & Knapp, Inc., which has been active in urban renewal much longer. And it is dickering for land in two others.

Besides the Cincinnati project, Reynolds has firm contracts in Philadelphia; Washington, D. C.; Kansas City, Mo.; Kansas City, Kan., and Richmond. Last month, Cole joined the hot competition for the Ocean Park redevelopment project in Santa Monica, Calif., offering a Victor Gruen design for 2,046 living units in five self-contained communities. He also offered a plan of Constantinos Doxiadis to redevelop 17 acres of rundown commercial property along the Ohio River in Louisville by building high-rise apartment houses and business buildings.

Construction will be under way on all six of the contracts this year, and if Reynolds also wins the other two awards, that will be about all Cole's staff will be able to handle for a while.

• **Minority Policy**—Reynolds thinks no other manufacturer of building materials has become so deeply involved in real estate development, but it is confident that its unorthodox approach will be profitable, both from increased sales of aluminum and from the real estate investment itself.

Its competitors in aluminum take different views. Aluminum Co. of America feels open competition with developers for urban renewal projects might antagonize its customers. So it limits participation to a minority interest. It has taken 40% in each of two Webb & Knapp deals and a share in one other project. Kaiser Aluminum & Chemical Corp. has rejected the whole idea on the ground that the potential market gain is too small.

Cole readily admits that Reynolds has yet to prove its point, with the Cincinnati project the one most advanced and yet still short of being an accomplished success. But he and top Reynolds management are optimistic.

I. How It Came About

Long before he died in 1955, Richard S. Reynolds, Sr., pressed the idea

that Reynolds Metals should become more active in housing. "We ought to help people get better homes," he often told his four sons, who now run the company.

Taking the advice, the sons have promoted home use of aluminum products such as siding and awnings and have backed such package promotions as the House of Ease campaign. Urban renewal and direct investment in real estate were often discussed.

Then something happened to bring the matter to a head. One autumn day in 1958, David P. Reynolds, executive vice-president for sales, encountered Cole on a plane trip. The two had met a year earlier at a luncheon in Washington, where Cole, former Republican congressman from Kansas, had served as Housing Administrator all through the Eisenhower years.

During their chat, Reynolds asked Cole if he planned ever to leave government work.

"One of these days," Cole replied.

"When you make up your mind," said Reynolds, "let us talk to you."

• **The Day Came**—Cole later talked with all four brothers and, next January, came into the new post at Reynolds. He persuaded Sid Jagger, who had been assistant commissioner for operations in the Urban Renewal Administration, to join him in industry.

Reynolds' leap into urban renewal didn't follow immediately. When he reported for work, Cole was given several other assignments: screening ideas for new products and investments, thinking up new uses for aluminum in housing, making speeches and shaking hands among building industry groups he had come to know well.

Before the decision to enter urban renewal as a controlling sponsor, Reynolds and Cole weighed lesser degrees of involvement. Cole warned the company that urban renewal can be a complicated and frustrating business. In the end, though, he recommended that Reynolds go all the way, and David Reynolds got the directors' approval for the new subsidiary.

II. Foot in the Door

From their work in Washington, both Cole and Jagger knew the status of urban renewal planning in many cities, and it didn't take long to start putting Reynolds' money on the line. When word got around among renewal people that Reynolds was seriously interested, offers started pouring in.

The first venture was into a project already well along in planning—the 2,500-acre Eastwick project in Philadelphia, the nation's largest development of its kind (BW—Aug.13'60,p 126). Cole made a deal with two Philadelphia builders, Samuel A. and Henry A. Berger, who were on the list of qualified bidders (the qualifying date had already passed), and plans were drawn for Reynolds by Doxiadis. Reynolds and the Bergers were designated for the contract, though later they were asked to split it with a syndicate of other Philadelphia builders.

Next came the Cincinnati project, in which Reynolds won sponsorship of the Laurel area in a joint venture with John C. Havens, a Columbus builder. The contract had been awarded in 1958 to sponsors who later pulled out.

Cole got into the huge Southwest redevelopment in the nation's capital when he happened to meet John R. Searles, Jr., executive director of the District of Columbia Redevelopment Land Agency, while walking to work one morning. Phone calls from redevelopment officials in the two Kansas Citys resulted in contracts there. In Richmond, where Reynolds has its executive offices, William E. Witt, a Virginia Beach builder, invited Reynolds to share in his small low-cost project.

III. Rules and Reasons

In all these projects, Cole has followed similar policies:

• A project may be partly devoted to commercial or industrial uses, but it must include housing—which Reynolds wants primarily to boost.

• It must be capable of being completed in a reasonably short time. Cole is well aware of the long delays that have dogged some projects. He doesn't want to bid on a tract unless the city has substantially acquired title. He doesn't want to get hung up by protracted condemnation actions or the thankless task of relocating slum dwellers.

• For the land, Cole is willing to pay "anything a city wants, provided the market can absorb the housing."

In each city where it has won a contract, Reynolds has set up a separate corporation. To keep control without becoming its own contractor, it has invited some builder—local or not—to take a minority interest, anywhere from a nominal 5% to a hefty 49%. It engages different architects and engineers, uses local professional talent and local suppliers as much as possible.

• **Steady Turnover**—Under the law, the sponsor's risk can run 3% to 5% of total construction cost. Cole won't say how much money Reynolds has shelled out so far, but land and construction for the six projects will cost around $154-million. The size of Reynolds' share varies from city to city, but an informed guess puts the company's commitment at around $5-million.

Not all of this money will be out at any one time. For maximum "rollover," says Cole, projects are dovetailed

"Still shanghaiing secretaries?"

"All hands to the chain gang—the mailing must go out!" So high priced secretaries, bookkeepers and clerical workers are drafted for the dull, monotonous job of folding papers and stuffing envelopes. Routine is interrupted, work piles up. Sometimes a spell of overtime is required before the office gets back to normal. The girls, naturally, don't like it. Why should they?

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so the payout comes in stages that don't coincide. For all his enthusiasm, Cole says this is "a limited, experimental program" in which Reynolds "must walk before it can run."

He sees a reasonable return on investment as the first benefit of the venture—"we wouldn't be in it if we didn't make a profit." As projects are finished, the units are sold, freeing the invested money for new ventures. So far, Reynolds hasn't decided if it wants to become a landlord, though the Santa Monica and Louisville jobs on which it has bid include some rental housing.

• **Building Sales**—The long-run benefit of the program is expected to be a growth in sales of aluminum. Construction already is aluminum's No. 1 market (25% of consumption vs. 21% for transportation equipment), and the industry is eager for more of this business. Cole says, however, that his architects are free to specify as much or as little aluminum as they feel desirable in a given project—except that he would hardly hire any architect who said at the outset he would have nothing to do with aluminum.

Cole sees broad encouragement for aluminum sales, plus the opportunity for trying out aluminum products in a variety of conditions. The projects include high- and low-rise apartment houses, row houses, duplexes, and one-family dwellings.

• **Why Urban Renewal?**—Reynolds chose to stress urban renewal, which accounts for only a small fraction of total homebuilding, rather than general housing developments. The reason, as Cole gives it, is largely bound up with financial leverage.

By taking advantage of special FHA insurance on urban renewal projects, Reynolds can get a 90% mortgage, and another 5% or so in additional allowances. And it doesn't have to hunt for a taker for the 90% mortgage; it can get a commitment from the Federal National Mortgage Assn. to buy the mortgage. Each project stands on its own feet and, once Reynolds gets the contract, the company's own credit is never needed.

Besides, says Cole, sponsorship of urban renewal gives prominence to the aluminum industry in general and Reynolds in particular. Such projects are civic showcases, as ordinary tract developments rarely are. Cole recalls with a smile a Cincinnati newspaper headline over a story on his groundbreaking there: "City's Dream Comes True."

"You just can't buy that kind of publicity," he says.

Community enthusiasm also helps fill up a project, without the salesmanship a tract developer must use. "We have very influential people in every community willing to go to town for us," Cole says. END

Keeping 'Em Down on the Farm

Farm communities face economic losses as population drops around them. To fight the trend, Iowa town brings in industry.

Booker Smith remembers that it was dark and cold when he opened his law office on the town square in Fairfield, Iowa, the morning of Feb. 2, 1956. It was only four o'clock, but Smith was up against a deadline.

At six, a dozen of the town's business leaders were due to meet in the Leggett Hotel to organize the Fairfield Chamber of Commerce Development Corp. Smith had to draw up the articles of incorporation before then. Working fast, he got to the hotel just as the others were starting their coffee.

John A. McKinzie, Jr., a solid block of a man, was in charge. He laid it on the line.

The day before, American Chain & Cable Co., Inc., had decided to locate in Fairfield on one condition: The town had to buy it some land and erect a building under a lease-purchase deal. The cost was estimated at about $375,000.

The venture required only $100,000 of equity capital at once. The remainder could be borrowed. But the development corporation had no more than 48 hours to raise it.

Quickly, the businessmen started out to sell 1,000 shares of stock in the corporation at $100 each.

The job was finished in less than 36 hours. Lawyer Smith still smiles at the thought: "As a matter of fact, we oversold our goal by $6,500." All of the money came from the citizens of Fairfield, a county seat town of 8,000 in southeastern Iowa.

It gave the town a new blue chip industrial name and 100 new jobs. A modest industrial revolution was in motion.

Since then, another 300 jobs have been provided with the corporation's help in new plants built by existing Fairfield firms. They pushed the town's manufacturing employment to 1,300—handsome growth by Corn Belt standards.

This summer, there will be 150 more new jobs in a plant being completed by Rockwell-Standard Corp.

• **Which Way?**—With this latest plant under way but no new one under construction, the town can pause and reflect on how much the new plants have done for it and whether it wants more, if it can get them. Some feel Fairfield should relax for a while. Others insist it should not. Those who want the town to keep up its drive seem in the majority.

"We have to face it," McKinzie said for the majority, "small towns in the Midwest are in serious trouble. We're losing population and with it our retail markets. It's our obligation to offer job opportunities to keep folks at home."

• **Bigger Payrolls**—The 1960 census seemed to support his argument. Since 1950, Jefferson County, of which Fairfield is the seat, gained slightly in population. All the counties around it lost. Without Fairfield's growth, Jefferson County would have dropped, too.

There is no doubt that industrial expansion is largely responsible for Fairfield's growth from 7,299 to 8,054. It provided both factory jobs for workers no longer needed on the farms, and service jobs in the retail stores and the like that were able to grow because of the bigger factory payrolls.

• **Shock Treatment**—Although the population shift from farm to city has been going on for years, as farm productivity increased, it was only about five years ago that communities in Iowa and other Midwestern states recognized the need for off-farm employment. Their farmers were better off than farmers in other states. And while much farming around Fairfield was poor by Iowa standards, Fairfield was content with its five solid, home-grown manufacturing firms.

It took a shock in 1955 to spur the community to action that resulted in

PROMOTER John A. McKinzie, Jr., has big plans for Fairfield. Some of his ideas—such as the $5,000 neon sign above—have evoked criticism from conservative townsfolk.

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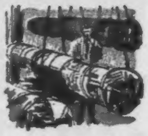




There are 21 basic manufacturing industries in the U.S. Government's Standard Industrial Classifications. Eight of them make up metalworking—the manufacturing of products from metal—and American Machinist/Metalworking Manufacturing concentrates its circulation (all ABC paid, incidentally) in these eight. An executive responsible for mining, ore-producing, or refining operations—or in any industry not involving metal*working*—is almost automatically excluded as a potential reader by his lack of vital interest in the subjects covered editorially by AM/MM.

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FACTORIES provide off-farm work for people who want to live on their land and work in town. Universal Producing Co. (above), maker of plastic household accessories, hires mostly women.

Fairfield Development Corp. Philco Corp. bought out the Dexter home laundry equipment plant, the largest employer in the town, and whacked its work force in half—from 900 to 450.

McKinzie took on the drive. His main business is a bottled gas and appliance store and he runs a tree farm on the side, but basically he is a promoter. He loves the work. He had just served as president of the Chamber of Commerce, got the Chamber to build a new building with a flashy $5,000 neon sign that provoked some criticism in conservative Fairfield.

• **Two Pluses**—In his industrial work, McKinzie had two things to help him—in addition to his own drive. First, he had community backing. Even conservatives such as Thomas A. Louden of Louden Machinery Co. (since 1953, a subsidiary of Mechanical Handling Systems, Inc., of Detroit) joined in the push to get American Chain & Cable.

Second, Fairfield had definite advantages to manufacturers who considered it. Aside from nearness to market and availability of labor, it offered a wage scale lower than those of competing industrial communities in eastern Iowa. It did not have high-paying industries such as farm implements and meat packing to hold its scales up, as did nearby Ottumwa. At the same time, it was able to tap the pool of subsistence farmers from southern Iowa who wanted to commute to jobs in town that enabled them to keep their farms.

• **Other Deals**—Once the development corporation got American Chain & Cable started, the other deals were not long in coming.

In 1957, it assisted negotiations for purchase of a new and larger plant for Fairfield Engineering & Mfg. Co. The gain: 40 jobs.

Next came the community's response to growing needs of Universal Producing Co., a manufacturer of plastic household accessories, which provides jobs largely for women. It needed a new plant. Other states wooed it, but the company decided to remain in Fairfield if citizens would buy $50,000 of its stock as proof of their desire to keep it. Up to then, the company had been owned by one family.

McKinzie was called into the stock sale. He held four meetings in town, made the pitch, and the stock was sold within two days. The development corporation also lent the city water board $10,000, interest free, so water and sewer lines could be laid to the new plant. Result: 60 more jobs.

Next, the development company provided a loan and sold land to Vega-Vita Products Corp. for a $75,000 food processing plant.

Then came Rockwell-Standard. According to C. A. Cooper, vice-president, Fairfield was one of four communities recommended to his company by Fantus Area Research, Inc., of New York (which had done an industrial survey of Fairfield financed by the development corporation).

• **The Deal**—To get Rockwell-Standard, the development corporation had to agree to donate 30 acres on which the company would build a $3-million plant and no word of the negotiations was to leak.

As a consequence, the announcement was a shocker when it came and there was some criticism of McKinzie for his handling of the deal. Most of Fairfield's business leaders heard the news over the radio or saw it in the newspaper. Some felt the town was going big-time too fast. Others were annoyed that McKinzie had not consulted with them in advance.

The result was a challenge to McKinzie when he came up for reelection to the development corporation's board last year. It wasn't much of a challenge. He won by an overwhelming vote.

• **Ready for More**—Now, with new store fronts on all sides of the town square and retail sales up, there is little question that the liberals are in command.

Few leaders publicly agree with Louden in calling for a long pause in the industrialization drive. "I don't want to sound reactionary," he says, "but I feel that we have reached the limit, at the moment, in the supply of trained labor in this area."

More typical of the leadership is publisher Walter Williams of the Ledger. "I think this community is ready for more expansion," he says. "We're far from any limit in the labor market. I look for much more growth." END

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Making the Most of a Breathing Spell

The U. S. balance-of-payments position, which approached the crisis point last fall, has now shown a dramatic improvement (page 32). The international standing of the dollar has strengthened materially. For the year as a whole, it is even possible that we may have a small payments surplus, which would be a most welcome development after three successive annual deficits averaging $3.7-billion.

There are two key factors in this turn around—a gradual reversal in the movement of short-term capital and a continued, if only slight, rise in the U. S. trade surplus. During 1960, our trade surplus rose steadily until it reached a $6-billion annual rate in the fourth quarter, only to be offset by a massive outflow of short-term capital, much of it speculative. Today, however, short-term funds have begun to return to the U. S., and we are getting the full benefit of our continuing export surplus, which is currently large enough to roughly equal net payments on all foreign transactions other than short-term capital.

There is legitimate ground for satisfaction in this country that the payments squeeze of the past two years has passed. But there certainly is no room for complacency either in Washington or in the business community. This is a breathing spell rather than a permanent change in the situation. If we fail to make the most of the time this respite gives us, we soon will find ourselves facing a new crisis.

Our trade surplus probably will begin to shrink by the end of this year. It has reached its present high level largely as a result of the strong demand for American goods in booming Western Europe and the decline in our imports brought on by the recession here that now has bottomed out. Even if there should be a substantial inflow of short-term capital this year to compensate for the deterioration to be expected in the U. S. trade account, our basic position would not be strengthened as a result.

The Administration clearly should continue with its efforts to strengthen the competitive position of U. S. industry and to shift a greater share of Western aid and defense expenditures to our European allies. To far too great an extent, our foreign economic policy still is geared to the Europe of the early Fifties and not to the Europe of 1961.

It is equally true that the international monetary system has become somewhat outdated and is no longer capable of handling large movements of short-term capital without undue strain on one of the two reserve currencies—the dollar and the pound.

The Administration quite rightly is planning to move, with full British support, to strengthen the International Monetary Fund—putting it in a position where it can offset any large flows of short-term funds by special borrowings from creditor nations and special loans to those in temporary deficit. It can only be hoped that this change in the operations of the IMF will be approved at its annual meeting in September.

Population and Industry

A new United Nations study throws much light on industrialization of the underdeveloped countries. Industrialization, apparently, is still the same sort of traumatic and dangerous experience that it was in Western Europe in the 19th Century. If anything, the agonies of industrial revolution are even greater today, complicated as they are by population problems that must make Malthus spin in his grave.

The population explosion is itself a consequence of the spread of modern science and technology—particularly through the prevention and control of disease. The U. N. report finds that every year the world grows by 45-million to 55-million people; each year we add, in effect, another France.

In the poor countries, population runs a grim race with economic development. At the same time, the emergent people face a series of psychological shocks: "Attitudes and behavior may be without anchors, controlled more by the passing winds of demagogy, faddism, or mob spirit than by established values of home and community." Industrialization may appear to breed wretched working conditions, starvation wages, child labor, broken families, overcrowding, filth and sordidness in slums, delinquency and corruption of youth.

But these agonies, the U. N. wisely notes, are not a necessary consequence of industrialization; many simply represent evils of poverty and overcrowding that are independent of industrial growth; they represent a rapid transfer of rural misery to an urban setting where it is more conspicuous. What is needed in such cases, the U. N. study observes, is not less but more industrialization.

For industrial and other forms of economic growth are really the only genuine answer to poverty. They are the only way to absorb surplus population into jobs, to create higher incomes, to build the capital needed not only for further industrialization but for social action as well: to give the people better health, housing, education, and all the other elements of a better life.

Most crucial of all those elements in the good life is freedom itself; but that's a value that cannot be offered as a substitute for economic progress. If America and the other nations of the West want freedom to survive in the world, they must do all in their power to assist the poor countries to break out of the initial agonies of economic development into a phase where growth can be self-sustaining and more obviously rewarding.

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